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UNITED STATES

Analysis of U.S. Middle East Policy From Reagan to Bush

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[Article by Chen Jiang (7115 3068): "Middle East Policy of U.S. From Reagan to Bush"]

[Text] During his 8 years in office, Reagan put forward several Middle East peace plans based on the situation in the region, but none of them was implemented. After assuming the presidency, George Bush has modified the U.S. Middle East policy wherever appropriate, moving cautiously and positively, in order to solve the existing problems in stages, and nudged both the Arabs and Israelis to pursue a course of action favorable to American interests. In reality, however, the overall Middle East policy of the Bush administration has stayed within the basic framework of the Middle East policy of his predecessor.

On 20 January 1989 George Bush assumed office as the 41st president of the United States. He has basically continued the foreign policy of the Reagan administration, with some modifications; from Reagan to Bush, America's Middle East policy has been highly consistent. The Middle East situation has changed radically in recent years, presenting the United States with opportunities as well as challenges in the area. In what way the Middle East policy of the Bush administration will evolve is a major factor affecting the Middle East situation.

A. Review of the Middle East Policy of the Reagan Administration

Three things are basic to U.S. interests in the Middle East: One, checking the southern infiltration by the Soviet Union; two, ensuring safe passage through the oil routes in the Persian Gulf; and three, protecting the security of Israel. It was around these premises that Reagan formulated his Middle East policy after entering the White House in 1981. During his 8 years in office, the United States made a series of adjustments to its Middle East policy as circumstances in the region changed and it prepared a number of plans aimed at solving the problems in the region. However, the Reagan administration met with setbacks at every turn and achieved little.

1. Soon after Reagan took office, the United States replaced its "two pillars" policy with "strategic consistency." The "two pillars" policy, which meant helping and bolstering up Iran and Saudi Arabia to protect U.S. interests in the Gulf, was put forward as early as the Nixon era. During the Carter administration, however, three major events in the region put the United States in an unfavorable strategic position. In early 1979, the Iranian revolution broke out and the Pahlavi dynasty

was overthrown. With the fall of the shah of Iran, America's major pillar in the Middle East collapsed and the Central Treaty Organization was disbanded. A gap appeared in the line of defense against the Soviet Union, which had now been pushed southward. In late 1979, the Soviet Union invaded Afghanistan. Believing that Moscow might move farther south at any time to capture a warm-water port, the United States felt an imminent threat. In 1980, the Iran-Iraq war broke out, thereby intensifying the instability in the Gulf region. It seemed that the balance of power in the region, years in the making, might be upset at any moment.

Faced with this situation, Reagan made containment of Soviet expansion the top concern of his Middle East policy soon after he took office. The Reagan administration moved on two fronts. On the one hand, it beefed up U.S. military presence in the Gulf and Indian Ocean, accelerated the expansion of its "rapid deployment forces," improved its military installations in the Gulf and neighboring areas, and expanded its military bases. On the other hand, it strengthened its ties to Israel, Saudi Arabia, and Egypt, members of the "strategic triangle" which formed an anti-Soviet "line of defense" based on "strategic consistency" along with countries like Jordan, Oman, Pakistan, and Turkey. Under the banner of "strategic consistency," these nations made up a loose alliance joined by the common purpose of stopping the Soviet Union. Israel was regarded by the United States as a "strategic asset" in the Middle East, a "deterrence force against Soviet expansion" in that turbulent region that the United States could use in case of emergency. As soon as he assumed office, Reagan greatly stepped up military and economic assistance to Israel. In September 1981, the United States and Israel signed a memorandum on strategic cooperation, ushering in a new era in the special relationship between the two nations. Meanwhile, the United States continued to consolidate its relationship with Saudi Arabia, supplying it with large quantities of sophisticated weapons and equipment and encouraging it to create an effective defense system in the Gulf. The United States also strengthened its ties to Egypt by offering it military and economic aid and exploiting its isolation in the Arab world. Egypt was encouraged to improve its relations with Israel on the terms of the Camp David accords. Such was the "strategic consistency" system, anchored by the "strategic triangle," that Reagan pursued in the Middle East. Buttressed by U.S. military strength, it was, in effect, designed to prop up the local anti-Soviet alliance to check the southward push of Moscow. However, while the system was premised on "consistency," there was no basis for consistency among the participating nations. Arab nations could not stand on the same side as Israel. Besides, there was dissension within the Arab world itself. As a result, U.S. strategic thinking failed to strike a responsive chord among the nations concerned and did not produce the desired effects.

2. The United States followed up the "strategic consistency" policy with another proposal, unveiled in September 1981, aimed at "settling the Middle Eastern

question." Known as the "Reagan Middle East Peace Plan," in substance it was based on the "land for peace" and "military withdrawal for recognition" proposals. In other words, Israel was to withdraw from the West Bank of Jordan and the Gaza Strip and allow "self-rule" among the Palestinians in those territories. Jordan and Palestine were to be joined in a confederation. Arab nations were to recognize the legitimacy of Israel's existence. The Reagan plan met with opposition from both Israel and the Arabs. Soon after it was announced, the Arab nations countered with the Fez plan unveiled at the 12th Arab summit in Fez, Morocco. The Fez plan did not recognize Israel's right to exist, effectively rejecting the Reagan plan. Israel was not happy with the Reagan plan either. It objected to withdrawing from the West Bank and the Gaza Strip and dismantling Jewish settlements in the occupied territories, and it refused to accept a Palestinian state. Because of Arab and Israeli opposition, the Reagan plan fizzled out.

3. After the Reagan plan came to nothing, the United States took a number of steps in response to developments in the Middle East. It sent troops into Lebanon, drummed up support for an "Israeli-Lebanon agreement," and dispatched envoys to conduct shuttle missions in the region to explore the possibility of implementing the "Amman agreement." (This agreement on joint action over the Palestinian issue was worked out by King Hussein and Chairman Arafat of the PLO in the capital of Jordan on 11 February 1985. It called for a comprehensive solution to the Palestinian problem on the basis of military withdrawal by Israel, self-rule for the Palestinians, and the convening of an international peace conference on the Middle East. Jordan and the PLO also agreed to send a joint delegation to any future Middle East peace talks.) However, because of deep-seated animosities between the Arabs and the Israelis and little common ground between them, the United States not only failed to make substantive progress in the region, but actually worked itself into a passive position occasionally. After a few years of running into snags and being foiled everywhere, Reagan realized that the time had not yet come for a solution to the Middle Eastern problem and decided to follow a "do-nothing" policy for a while. In 1986, the United States switched its attention to the escalating terrorist activities in the Middle East. On 15 March Reagan sent a message to Congress on the handling of regional conflicts, which embodied what later came to be known as "Reaganism." The thrust of Reaganism was to attack pro-Soviet nations in the Third World, emphasizing, on the military side, "low-intensity warfare" that fell short of regional conventional warfare, and, on the nonmilitary side, "diplomatic coldshouldering," "propagandistic criticism," "economic sanctions," and other nonmilitary means of hidden warfare. Pro-U.S. nations, on the other hand, were to be wooed with such tactics as "silent diplomacy" and "economic incentives." In the Middle East, the Reagan administration cracked down on terrorist activities by strengthening ties to countries friendly to Washington. In the first half of 1986, the United States conducted two air raids against

Libya because of the latter's support for terrorism. In late 1986, the United States recalled its ambassador to Syria and called on Western Europe to join it in imposing sanctions against Syria in retaliation for what it said was Syria's participation in the failed attempt to bomb an Israeli plane at Heathrow Airport in London. Despite its antiterrorism, the real target of Reaganism was Arab nations with close ties to the Soviet Union. It was intended to blunt the momentum of radicalism in the Arab world, revive America's prestige in the Middle East, and reduce Soviet influence. Objectively America's get-tough policy had a measure of success.

4. Before the end of 1987, a new factor emerged in the Middle East: the outbreak of an anti-Israeli struggle by Palestinians in the West Bank and the Gaza Strip. Israel's brutal suppression of the uprising provoked an outcry among the American people. Both Americans and the international community criticized the Middle East policy of the Reagan administration. Amid rising clamor for an international peace conference to solve the Palestinian issue, pressure on the United States also intensified. In early 1988, Secretary of State George Shultz came up with a new peace plan which came to be known as the "Shultz plan." This plan was actually a combination of the Camp David accords and the Reagan plan. The only difference was that to please both sides and to satisfy the demands of Arab nations, the United States this time around did not rule out the possibility of calling an international peace conference on the Middle East as the umbrella for direct negotiations. To sell his new plan, Shultz undertook four shuttle missions to the Middle East. The real purpose of his plan was not to advance the peace process in the region, but to quell the Palestinian uprising, help Israel get out of a difficult impasse, deprive the Soviet Union of an opportunity to intervene, and create a favorable environment for the upcoming administration to conduct its Middle East policy. The Reagan cabinet knew full well that, with time running out, it was simply impossible to achieve any breakthrough in the region. What it was doing was mere posturing, which was why it was predestined to fail.

In short, during the 8 years of the Reagan administration, the United States expended a lot of time and effort on the Middle East and put forward several plans, but it never managed to break the deadlock. Nevertheless, it largely succeeded in safeguarding its interests and preserved its edge over the Soviet Union. The new administration was well placed to deal with the problems in the region.

B. The Middle East Situation Facing Bush After He Took Office

Dramatic changes took place in the Middle East in 1988. After 8 years of bitter fighting, Iran and Iraq moved from war to peace talks. Jordan declared its dissociation from the West Bank, and the establishment of a Palestinian state was announced. There were new developments in both the Arab-Israeli conflict and the Iran-Iraq war, the two major problems in the Middle East. The Iran-Iraq

war, formerly a hot spot in the region, became of secondary importance, whereas the Arab-Israeli conflict once again stood out at the No 1 issue in the Middle East, the one problem that affects everything else.

1. The Iran-Iraq war was the first regional conflict after the Vietnam war that lasted for a prolonged period of time. The two countries waged a full-scale war on land, in the air, and at sea and suffered heavy losses. Its impact was tremendous. The war escalated sharply in 1987. Besides their trial of strength on land and in the air, Iran and Iraq were also engaged in a tanker war in the waters of the Gulf, affecting other Arab nations in the region. Kuwaiti tankers were attacked repeatedly. To ensure safe passage for its tankers, Kuwait asked for shipping escort from the permanent members of the UN Security Council. The Soviet Union was the first to agree to provide such escort. Out of concern that the Gulf would fall under Soviet control, the United States too sent naval vessels to escort Kuwaiti shipping. After the entry of a large U.S. fleet into the Gulf, a state of nervous confrontation developed between the United States and Iran, culminating in a series of armed clashes, including a major one on 18 April 1988 in which the U.S. Navy destroyed two Iranian oil-drilling platforms at sea and seriously damaged two Iranian naval vessels. Direct U.S. involvement signified that it had abandoned its so-called "neutrality" in the Iran-Iraq war and tilted toward Iraq. Iran would find itself under overwhelming pressures if it were to fight a war on two fronts—on land and at sea. On 18 July 1988 Iran formally announced its acceptance of UN Resolution 598 and peace negotiations began between Iran and Iraq. The cease-fire between Iran and Iraq contributed to stability in the region, reduced the threat to the Gulf states, and eased pressure on the United States in the Gulf so that it could put aside for the time being the question of using military forces to protect oil shipping lanes in the Gulf and concentrate on peace in the region, where a number of new factors had emerged.

2. Just as Iran and Iraq reached a cease-fire, the Arab-Israeli conflict took a new turn. On 31 July 1988 Jordan announced that it was severing its legal and administrative ties with the West Bank. Jordan's decision to dissociate itself from the West Bank upset all the peace plans that the Reagan administration had put forward for the region. This was because both the Reagan plan and the Shultz plan were premised on the so-called "Jordan choice," meaning the choice of Jordan as the party to deal with instead of the Palestinian Liberation Organization, thus enabling the United States and Israel to avoid dealing with the PLO directly. Jordan was prompted by considerations of its own interests to wash its hands of the West Bank, but its move did put the PLO on the international stage as an independent political force. King Hussein's act posed both the United States and Israel with new choices. There was now no way to avoid dealing with the PLO if the United States wanted to solve the Middle East problem. America's refusal to talk to the PLO was precisely why the Middle East peace

process was deadlocked for such a long time. Faced with the new situation, the United States was forced to readjust its Middle East policy.

3. The dissociation of Jordan from the West Bank accelerated the establishment of the Palestinian state. After Jordan announced its decision, Chairman Arafat of the executive committee of the PLO declared the formation of a government in exile and claimed that the PLO would assume responsibility for dealing with everything that would arise from Jordan's decision. After months of consultations and preparations, the 19th special conference of the Palestinian National Council was held in Algiers, where Arafat announced solemnly the formal establishment of a Palestinian state. It was decided that Jerusalem would be the capital of the new state and 15 November its national day. The conference also adopted a political declaration that outlined the Palestinian position, explicitly accepting Security Council Resolutions 242 and 338 and making them the basis for the convening of an international conference on the Middle East and the making of peace. The political declaration reiterated the Cairo declaration of 1985, announced that military activities outside the occupied areas would be halted, and condemned all forms of terrorism.

America's longstanding refusal to recognize the PLO was based on its perception that the PLO was a terrorist organization and on the PLO's rejection of UN Resolutions 242 and 338. To the United States, the armed struggle by the PLO for people's liberation was terrorism. The diplomatic and foreign-policy line of the new state enunciated in the political declaration adopted at the special conference of the Palestinian National Council effectively removed the obstacle to direct U.S.-PLO contacts. Nevertheless, the United States still refused to recognize the PLO. In early December 1988 it also refused to grant Arafat a visa so that he could address the UN General Assembly, forcing the UN to move its debate on the Palestinian issue to Geneva. Arafat enunciated the PLO's new policy in his speech to the General Assembly, but the United States again rejected the idea of a dialogue with the PLO on the grounds that Arafat was vague on key points in his speech. The next day Arafat reiterated the PLO's opposition to terrorism in all forms, recognized the right of all parties in the Middle East conflict to peaceful and secure existence, and endorsed UN Security Council Resolutions 242 and 338 without reservations as a basis for peace negotiations. Arafat's clear-cut stand was widely praised in many nations around the world. In the face of mounting pressure from the world community, the United States acknowledged that Arafat's speech met U.S. conditions and felt compelled to respond to it. On 14 December 1988 Robert Pelletreau, U.S. ambassador to Tunisia, met with a PLO delegation in Tunis for the first time. U.S.-Palestinian relations entered a new era.

C. "New Thinking" in the Middle East Policy of the Bush Administration

The rapid changes in the Middle East posed a new problem for the U.S. Government. In view of the fact that none of the peace plans proposed by his predecessor was put into practice, Bush takes a cautious as well as active position on the Middle East problem. Instead of rushing to produce a comprehensive peace plan, he takes a step-by-step approach and tries to avoid being bogged down in any one specific plan.

The foreign policy of the Bush administration is guided by pragmatism and is aimed at preserving U.S. leadership. To maintain its superiority, it has moved cautiously in the Middle East, advancing by small steps. Soon after assuming office, Bush said specifically, with the Middle East in mind, "I hope that the first step we will soon take will be a cautious one." Although he produced no specific plan, he has made a number of efforts in all directions to solve the Middle East problem. While attending the funeral of Emperor Hirohito of Japan in late February 1989, he met with King Hussein of Jordan, President Mubarak of Egypt, and President Herzog of Israel. In March and April, he also met with Foreign Minister Arens and Prime Minister Shamir of Israel, President Mubarak, and King Hussein separately in Washington. The various moves by the Bush administration and statements by top officials from the State Department and the White House give us an idea of the emerging Middle East policy of the Bush administration.

In mid-March 1989 Foreign Minister Arens of Israel arrived in Washington for a visit. During his visit, the United States demanded in no uncertain terms that Israel change its practices and ease the tense confrontation in its occupied territories. In his talks with the foreign minister, Secretary of State James Baker said that the best way to break the impasse in the Middle East was a two-level approach: The Israelis and Palestinians should take practical and direct measures to diffuse the tension between them in Israel and occupied Arab territories. At the same time, comprehensive negotiations would begin to solve the security issue that so concerned Israel and to find the "final solution" that would satisfy the Palestinians' demand for national self-determination. Baker's proposals both satisfied Israel's legitimate security needs and safeguarded the legitimate political rights of the Palestinian people. Commemorating the 10th anniversary of the Camp David accords on 25 March, President Bush again demanded that "new thinking," under which the legitimate rights of both sides would be satisfied, be used to deal with the "grim challenge" facing the Middle East and bring about peace.

Meeting with President Mubarak of Egypt in Washington on 3 April, President Bush emphasized the need "to create a new climate" and expressed the hope that Egypt would use its position in the Arab world to influence the PLO. Meanwhile Bush put pressure on Israel to deal with the PLO as a party to any peace talks on the region. On 6 April Prime Minister Shamir of

Israel visited the United States. President Bush made it clear to Shamir, "The United States does not support Israel's demand for sovereignty over or its permanent occupation of the West Bank and Gaza." Shamir presented a four-point plan, but Bush only expressed support with reservations. Only on the principle of holding elections in the occupied territories did the United States and Israel see eye to eye. On 19 April, in a meeting with King Hussein of Jordan, President Bush again indicated his support for holding elections in the West Bank and Gaza that were "properly conducted and acceptable to both sides." He also expressed his hope that negotiations would be held on the basis of UN resolutions to solve the Middle East problems all around.

From the events above we can see that:

1. It was not long after he assumed office that Bush put the Middle East on its agenda, an indication that the United States was unwilling to hand over its enormous influence in the region to the Soviet Union or other nations. In February 1989, Soviet Foreign Minister Eduard Shevardnadze took advantage of the presidential transition in the United States and undertook a shuttle visit to the Middle East. During his whirlwind of diplomacy, he put forward new Middle East peace proposals and called for the convening of an international peace conference on the Middle East within 6 to 9 months. This Soviet move, motivated by a desire to break the American monopoly on the Middle East peace process, won extensive support among Arab nations and gave the Soviets more say on Middle Eastern affairs. In addition, the string of positive and pragmatic diplomatic activities by the Palestinian state after it was founded received broad West European support. Working at both ends—the Israelis and the Arabs—the West European nations hoped to bring about peace in the Middle East soon. Western Europe wanted to change its old supporting role in the Middle East and play an active, independent part. These Soviet and West European actions had the United States worried. The major reason why Bush began maneuvering in the Middle East as soon as he came into office was to neutralize Soviet influence, reinforce America's traditional superiority in the region, and maintain America's leading role in the search for a solution to the Arab-Israeli dispute.
2. The actions of the Bush administration indicate that it is more flexible and imaginative than the Reagan administration, but there is a limit to its flexibility. Its step-by-step approach is intended to solve problems in stages and create a favorable negotiating climate and relaxed environment so that both the Israelis and Arabs will spontaneously follow a course of action consistent with American interests. It gives each side some maneuvering room without letting it wander too far. It takes what appears to be an even-handed approach toward both the Arabs and the Israelis. On the one hand, the United States stepped up contacts with the Palestinians and Arab states to build up the trend toward peace negotiations. On the other hand, without hurting Israel's basic interests, it put limited pressure on it to moderate its

oppressive policy in its occupied territories so as to create a new image for the United States.

3. In reality, the actions of the Bush administration have not moved beyond the old framework of the Reagan administration's peace plans. Despite its "new thinking," the Bush administration is still thinking in terms of the old "land for peace" formula. Clearly, by putting pressure on Israel, it hopes to calm the Palestinian uprising in the West Bank and Gaza, to check the wave of anti-Israeli feelings in the occupied territories, and help save Israel from a passive position. In the end, it wants elections to be held in the occupied territories as a transitional step toward self-rule.

4. Judging from the meeting between Bush and Mubarak and Hussein, the United States wants to consolidate its ties to moderate Arab nations, expand the influence of modern Arab forces, and encourage the trend of moderation in Arab nations. With ties to both Israel and the PLO, Egypt plays a pivotal role in the Middle East. Since President Sadat signed the "Camp David accords" with the United States and Israel in 1979, there has been no large-scale war in the Middle East. Without Egypt, the peace process in the Middle East will be mere empty talk. Although Jordan has severed legal and administrative ties to the West Bank, it maintains considerable influence with the PLO and in the occupied territories. Moreover, even after severing ties to the West Bank, Jordan is not about to withdraw completely from the peace process. Less than 2 months after taking office, Bush met with President Mubarak and King Hussein twice precisely because he wanted to use the influence of Egypt and Jordan with the Arab world, boost the standing of the moderate forces, and set in motion again the wheels of the peace process so as to enhance the Arabs' sense of trust in the United States.

D. The Direction of the Bush Administration's Middle East Policy

A review of the actions of George Bush after he took office shows that his moves in the Middle East have been positive and pragmatic. Based on the present situation in the Middle East and the world and the traditional U.S. policy in the region, we can make the following general analysis and projection of the next U.S. move in the Middle East:

1. Because of its tremendous strategic importance, the Middle East remains an area of U.S.-Soviet rivalry. While U.S.-Soviet relations have improved, their competition in this region will not go away. It will be the leading objective of the Bush administration to continue its rivalry with the Soviet Union in the region. In recent years, guided by "new thinking," the Soviet Union has launched a positive flexible diplomatic offensive in the Middle East, greatly enhancing its influence in the region and posing a serious challenge to U.S. power there. However, the U.S. edge in the region remains intact. Bush inherited from the Reagan administration a favorable global strategic position. The protracted U.S. rivalry

with the Soviet Union also sheds some light on Gorbachev's weaknesses. To check the Soviet offensive in the Middle East, the United States will seize any chance to undermine Soviet influence. The Bush administration's "steady as it goes" approach has been quite effective, and it is likely to be continued as the administration seeks to limit the Soviet role to the greatest extent possible. The Soviet Union, for its part, will also exploit its strong influence with the radical Arab forces to struggle with the United States. At a time when the international situation is easing up, there will be more dialogue and coordination in U.S.-Soviet rivalry in the region as the two superpowers compete amid detente.

2. The Bush administration will not fundamentally alter U.S. partiality toward Israel. As a strategic pillar for the United States in the Middle East, Israel has always been regarded as the anti-Soviet bastion in the region, a means whereby the United States exercises its leverage in the Middle East. The Bush administration, therefore, will continue to formulate its policy revolving around Israel's basic interests. However, as the situation in the Middle East changes with the radical forces dividing and weakening and the moderate forces gaining in strength, one lone strategic ally in the region is far from adequate. The United States needs to further develop its relations with the Arab states to safeguard its own interests. Even as it continues to protect Israel, the Bush administration will seek to improve its relations with radical Arab nations and distance itself from Israel appropriately. As it does so, its differences and conflicts with Israel will increase.

3. The Bush administration will continue its dialogue with the PLO. Dialogue is the only way whereby the United States could put pressure on the PLO. It is also a channel by which the United States could exercise its influence. To protect Israeli interests, the United States might coordinate its moves with Israel in its dialogue with the PLO, but in the long run, it would not close the door on talking to the PLO. Thus far, the United States and the PLO have held four formal sessions and have begun discussing substantive issues. But it will be some time before they reach an agreement in their negotiations: Their differences cannot be settled in a short period of time. The U.S.-PLO dialogue will continue to be an important part of the effort to settle the Arab-Israeli conflict. The United States will also put pressure on the PLO to take practical steps to reduce tension in the occupied territories. The PLO, for its part, will demand that the United States make bold and decisive moves to restrain Israeli terrorism against the Palestinian people and insist that the Middle East situation be discussed in the context of an international peace conference. However, no international peace conference can be held in the near future, because of lack of interest on the part of the United States, which argues that given the considerable substantive differences between the various parties, the time has not yet come for such a conference. Instead of solving problems, it argues, a hastily arranged conference will only enable the Soviet Union to fish in troubled waters. Concerning peace in the Middle East,

the Bush administration may make some transitional arrangements to create the right conditions and atmosphere for direct elections in the occupied territories and direct negotiations between the PLO and Israel.

4. Strengthening relations with moderate Arab nations in the Gulf will continue to be a key aspect of America's Middle East policy. The Gulf region is vastly important to the United States for two reasons. For one, it is the lifeline of the Western economies. Second, it is extraordinarily important to the U.S. anti-Soviet strategy. However, moderate Arab nations in the Gulf are relatively weak and vulnerable. For years, the United States has been actively pursuing arms diplomacy by selling large quantities of advanced weapons and equipment to moderate Arab states along the Gulf and maximizing its own military presence in the region to check the Soviet Union's southward infiltration and protect the security of the world's oil shipping lanes. In effect, the United States has become the protective umbrella of moderate Arab nations in the Gulf. These nations too have become dependent on the United States. Consciously or unconsciously, they have become dependent on the United States for their own security. As the Iran-Iraq war came to an end, the once perilous Gulf has regained its tranquillity. During the war, the United States built up a close relationship with the Gulf states. The Bush administration will take advantage of the close ties to the Gulf states built up during the war and their need for U.S. military aid to further their dependency on the United States, which can then be translated into long-term effective control over the region. Also, out of global strategic considerations, the Bush administration will continue the Reagan administration's Persian Gulf strategy and integrate its military presence in the Gulf and Indian Ocean into an even more organic entity.

5. Iran's strategically important geographical position determines that improving relations with Iran is another essential part of the Middle East policy of the Bush administration. The ending of the Iran-Iraq war, neither of them a clear-cut winner, and the opening of peace negotiations between them are in line with U.S. interests. It is not likely that war will flare up again between the two nations. With the war over, Iran's top priority is reconstruction, for which it needs huge amounts of funds and technology. Moreover, with the Soviet Union on its border, Iran also needs U.S. influence to restrain the threat it faces from the north. The United States too needs to improve relations with Iran to secure a geopolitical edge for its anti-Soviet strategy. U.S.-Iranian relations may gradually improve during the Bush administration.

To sum up, the Bush administration has made new adjustments to the U.S. Middle East policy, but only marginally. It is foreseeable that, in order to safeguard its basic interests in the Middle East, the Bush administration will not deviate from the basic course of the Middle East policy of the Reagan administration.

CHING PAO Views Sino-U.S. Relations

90ON0087A Hong Kong CHING PAO [THE MIRROR] in Chinese No 146, 10 Sep 89 pp 82-84

[Article by Ling Huyan (0109 3698 5888): "Anna Chennault's Visit to Beijing Offers Insight on Sino-U.S. Relations"]

[Excerpts] Anna Chennault, the influential Chinese-American woman, spent the entire month of August shuttling between the United States, Taiwan, and the mainland. Now in her sixties, Anna Chennault is chairman of the Republican Minority Committee and unofficial adviser to the U.S. President on Chinese affairs. She visited Taiwan in early August and went to Beijing via Hong Kong in mid-August. Later that month she left for Taipei from Beijing through Hong Kong before finally returning to the United States to brief President Bush on the outcome of her trip. The focus of Chennault's latest trip was Beijing. Her primary diplomatic responsibility was to repair the rift between Washington and Beijing since the 4 June events. [passage omitted]

Why Did China Invite Anna Chennault to Beijing?

As we all know, a tidal wave of democratization has been sweeping the world in recent years. Spurred on by the "new thinking" of the new Soviet leader, Mikhail Gorbachev, socialist countries like Hungary and Poland too have been engulfed in a frenzy of democratic reform. In response, the Chinese mainland, particularly students and intellectuals in Beijing, had been demanding more freedom of speech from the Chinese Communist authorities. They wanted corrupt officials to be punished and, taking advantage of memorial services for Hu Yaobang last April, launched a tumultuous democracy movement that won support from people in all strata of society. To our surprise, the leaders in Zhongnanhai accused them of "opposing the leadership of the CPC" and attempting to "subvert socialism" and turning China into a "dependency of capitalism." Going against the trend, they unleashed the crackdown and bloodbath of 4 June. In the process, they made China the target of universal condemnation. In Western countries, in particular, which were especially critical, there was a loud clamor for economic sanctions. Sino-U.S. relations were further strained by the Fang Lizhi [2455 0536 0037] incident. The "hotline" between the two nations' top leaders was almost abandoned. In the United States, the Senate and House of Representatives successively passed sanctions against China in an attempt to force the Chinese Communist authorities to rescind the ban against members of the democracy movement and to respect democracy and human rights. The Chinese Government, in turn, accused the United States of "intervening in China's internal affairs" and secretly supporting "bourgeois liberalization" elements in order to bring about a "peaceful evolution." They even claimed that support by the U.S.-led capitalist West was an important external

reason for the "disturbances" in China and the "counterrevolutionary rebellion" in Beijing. Apparently the Chinese leaders would not hesitate to break with the Western capitalist world, including the United States, in order to preserve the "Red country."

Still the realities are harsh. As the Chinese Government recognizes, no country in the world today can close its door and isolate itself from the external world. If it messes things up, it may even be "disqualified."

This is the situation: After 4 June, the U.S. Congress adopted sanctions against China and President Bush suspended arms sales and trade talks. In addition, at their summit in Paris in mid-July, seven Western nations (the United States, Britain, France, Japan, Italy, Canada, and West Germany) issued a communique that "condemned China for using violence and violating human rights" and "called on the Chinese Government to stop taking action against people who did nothing more than fight for their just rights of democracy and freedom." According to the communique, "in view of the present economic uncertainty, the World Bank has postponed giving more loans to China. The governments of the various nations have also agreed to extend the visas of Chinese students in their countries." "The seven nations hoped that the Chinese Government would create conditions to avoid isolating itself in the world and renew cooperation with other nations in the interest of political and economic reform and the open policy."

The Chinese Government responded hostilely to the political communique of the seven-nation summit. It was particularly outraged at Western criticism of the Beijing incident, accusing them of "gross interference in China's internal affairs." "The West distorted the facts and put the incidental before the fundamental. It made unwarranted charges against China for putting down the counterrevolutionary rebellion. This is gross and totally unjustifiable intervention in China's internal affairs and is unacceptable." Western sanctions against China, it said, were "myopic behavior" and could not isolate China. At the same time, however, it is clear to all that those who wield power in Beijing and all Chinese propaganda mouthpieces are unanimous in their insistence that China "would not change its basic national policies of reform and opening to the outside world because of the unfriendly actions of a number of countries" and that China would keep its "independent" foreign policy.

Most notable is the position of Yang Shangkun, the strongman who has been watched closely since 4 June. Meeting in his capacity as president of China with visiting Chinese Americans in mid-July, he stressed, "Sino-U.S. relations remain crucial in the context of the world situation." He also declared, "The improvement in Sino-Soviet relations will not damage Sino-U.S. relations. Sino-Soviet relations are founded on the five principles of peaceful coexistence. China will never return to the 1950's. In terms of the international situation, Sino-U.S. relations remain crucial." Of course, he

had no choice but to add, "Some Americans use all kinds of issues to oppose China. This is unfavorable to Sino-U.S. relations."

People have logically concluded from Yang Shangkun's conversation and Beijing's repeated statements that its "independent" foreign policy would not change that, not only are the Chinese Communists unwilling and unable to break with Washington at the moment, but they still put Sino-U.S. relations ahead of Sino-Soviet relations. There are basically two major reasons: First, the Soviet Union has always been unreliable. Historically, the Soviet Union attempted to control the CPC and China during the Stalinist era. Khrushchev broke faith with the CPC. During the Brezhnev era, China and the Soviet Union opened fire at each other across their border and Brezhnev even let it be known that he was trying to launch a surprise nuclear attack against China. In short, the Soviet Union never gave up the idea of destroying China. Nobody would want to join forces with the Kremlin against the United States unless he is prepared to let China become a Soviet satellite. In the eyes of orthodox Chinese Communists, Gorbachev is precisely the ringleader of "bourgeois liberalization." But for his democratization and "glasnost," how could the peaceful evolution of Poland and Hungary have grown and grown, without inviting suppression? But for Gorbachev, how would the intellectuals and university students of the mainland have "followed suit"? This is clear from the fact that during Gorbachev's visit to Beijing he was greeted by placard-waving students who also requested to meet with him, bringing the democracy movement to a peak. This is also clear from Deng Xiaoping's "no, thanks" attitude toward the transformation in the Soviet Union.

Second, it is difficult for China to play the "Soviet card" right now. It may want to do so, but whether it can is another matter. To develop its economy, China still needs Western capital and technology. Thus, the door China has opened must continue to face the West. There is a consensus among foreign analysts that Moscow is neither willing nor able to satisfy China's needs. This is because times have changed; the days when the Soviet Union grasped any opportunity to give aid to a "friendly" nation are gone for good. The only thing that matters in foreign policy today is money and trade, not friendship. According to a East European diplomat in Beijing, the Soviet Union is trying to reduce its economic commitments to its allies and does not want to be bound by new commitments to yet another nation. Besides, China wants to remain independent of Moscow.

In view of the harsh realities, China's quarrel with and estrangement from the United States, the leader of the Western alliance, even if it stops short of a total break in diplomatic ties, is no joke. Analysts have all pointed out that China's economy has been hard hit after 4 June. Normal operations and production at many Sino-foreign joint ventures have been suspended and foreign merchants have canceled orders or stopped the shipment of materials. Foreign banks have slashed lending by billions

of dollars. Thus, the magnitude of China's economic losses is extraordinary. Under these circumstances, China would be overdoing it if it does not look for ways to improve relations with the United States and other Western nations. This is the backdrop against which Anna Chennault was invited to Beijing to repair Sino-U.S. relations.

For Bush, the Consideration Is Still "Global Strategy"

As for the United States, it was pointed out in "An Inquiry Into the Reversal in Sino-U.S. Relations" in the previous issue of CHING PAO that President Bush continues the China policy of Nixon and Kissinger and views Sino-U.S. relations from the perspective of global strategy. He is reluctant to see this balanced strategy destroyed by the events of 4 June to the benefit of the Soviet Union. Moscow, after all, is still the only U.S. opponent in the global strategy. Bush believes that there must be a limit to sanctions against China and that bilateral relations should not be pushed to the brink of a total split. Like the Soviet Union, the United States is guided by self-interest, not friendship, in its foreign policy. As President of the United States, therefore, Bush would not want to endanger the vast U.S. investments in China or let others (like Japan) fish in troubled waters in order to protect the "interests" or human rights of the Chinese people. Be that as it may, Bush cannot ignore congressional or public pressures. Therefore, the United States cannot but be conciliatory toward Beijing so as not to push it into the arms of the Soviet Union. In fact, the Western nations merely "condemned" China at the Paris summit; they did not announce new sanctions as rumored earlier. This shows that the West was acting with restraint. Western leaders, reports say, think that severe economic sanctions would only hamper China's economic reform and open policy and may force China to return to its old policy of autarky and isolation, which would only favor the ascendancy of the conservative forces and retrenchment policies, not economic openness and democracy. For strategic needs, the West must increase the economic and trade benefits China can derive from drawing close to the West, instead of following an oppressive policy.

In terms of international relations, China is a strategic power in the world. If the West imposes economic sanctions against China, it would only create more opportunities for the two powers, China and the Soviet Union, to further improve relations and may transform the "great triangle" framework in the world. Because of these interests, the West decided against putting too much pressure on the leadership in Zhongnanhai in order to avoid a confrontation.

Perhaps prompted by their own personal experience, both the old and new generations of leaders in Zhongnanhai do not much bother to differentiate between the executive and legislative branches of the U.S. Government and their different functions and tend to regard the two as a single entity. Even as it accused the United States of staging an "anti-Chinese cantata," it launched

its own "anti-American cantata" on the mainland. So it is probably the purpose of Chennault's China trip to explain to the Chinese leadership in what ways the U.S. administration and Congress agree and disagree with one another, as well as the United States' international obligations to human rights and democracy, and to persuade the Chinese to lift martial law in Beijing.

Sino-U.S. Relations To Stay Clouded in the Short Run

What limited information Anna Chennault disclosed at her press conference in Beijing does not paint a clear picture of the outcome of her latest mission; much remains a "mystery." Of the Zhongnanhai leaders she said she had met with, the most senior was only Vice President Wang Zhen [3769 7201]. As for Deng Xiaoping, only his "children" were present. Neither General Secretary Jiang Zemin [3068 3419 3046], nor President Yang Shangkun [2799 1424 2492] or Premier Li Peng was formally mentioned. Before she left for Beijing, she talked of "holding discussions," "explaining positions," and "exchanging opinions" with the leaders of Zhongnanhai. But with whom, really? Like Kissinger in years past, has Chennault struck a major deal, a bombshell that would surprise us all when it is officially announced?

In any case, Anna Chennault disclosed two noteworthy pieces of news. She said, "I believe now is a time of reorganization in China when they decide who will fill what post." But she also said that she knew little about the happenings within China's top echelon and was hence unable to assess the degree of stability in that country. Rumors suggest that a power struggle is going on over the choice of a successor to Deng Xiaoping. One can assume that Sino-U.S. relations will remain clouded in the near future.

WEST EUROPE

Fang Lizhi's Works Published in German

90ON0071A Hong Kong CHENG MING in Chinese
No 143, 1 Sep 89 p 25

[Text] At risk of harm to his person and position, Professor Fang Lizhi still keeps up an unrelenting stream of output, a moral force like a microwave bombardment. Brewing for a year, edited and organized by West Germany's Ruhr University Professor Helmut Martin, and his students of Chinese Studies in Cologne and Bochum, the newly translated works of Fang Lizhi, caught up in the upheaval of the China democracy movement, were finally made available to Western readers.

This volume, entitled *China in Upheaval (China im Umbruch)*, contains Professor Fang's 1985 lecture at Zhejiang University on prospects for reform, the separate, late 1986 lectures at Shanghai Tongji University and the College of Communications on such topics as socialism in crisis, the importance of democratic institutions, and the role of intellectuals. The work also

includes the text of Fang's January support for Deng Xiaoping's appeal for the release of Wei Jingsheng and also the interview with visiting Hong Kong journalists on the eve of the great 4 June massacre (31 May) on the situation in the prodemocracy movement. Both the introduction by Erwin Wickert, former ambassador to Beijing, and the editor's postscript specifically regard Mr Fang as a catalyst of the democracy movement in China.

A year before, when Fang Lizhi wrote the introductions for German readers he already pointed out that Chinese officials had been boycotting Western culture from getting into China, "particularly the concepts of humanity, democracy, human rights, and others that are in conflict with the dictatorship of the proletariat," making him feel that the officials were building a kind of spiritual "Berlin Wall." Naturally, Mr Fang had no way of predicting that the minority of power holders in China not only would not be satisfied with "building a wall," but would want to stand up against the wall and execute any citizen who opened his mouth to request a little democracy and freedom. Now that the fresh blood of our compatriots is splattered all over the wall and dissolved in the dust, there will soon be in full bloom even more lustrous and beautiful flowers.

There was a behind-the-scenes episode in the publication of *China in Upheaval*. Two years ago, a Berlin publisher, Siedler, known for publishing collections of speeches by notable figures, invited Sinologist Ma Hanmao [7456 3352 5399] to translate *The Collected Speeches of Deng*

Xiaoping, this Sinologist suggested that the publishers should also publish a volume of "the Chinese Sakharov" Fang Lizhi—only then would he be willing to take on the task. Both sides came to an agreement, and the next year *The Collected Speeches of Deng Xiaoping* was published without glitches, with even a foreword by former Chancellor Schmidt. To illustrate the ebbs and flows of Deng Xiaoping's political career and his cunning and moody character, the editor even included the text of Deng's self-criticism during the Cultural Revolution (23 October 1966) in the volume. Chinese officials consider the publication a rat turd that has spoiled the bowl of gruel and tarnished the "lofty image" of the reformer Deng. The cultural attache of the embassy in Germany waged a press duel with Ma Hanmao in the pages of *FRANKFURTER ALLGEMEINE*, setting a precedent for attempts by Chinese officials to meddle in the academic pursuits of Western students.

Most recently, the Beijing Government has been losing ground in its policies, getting more and more bogged down, while Fang Lizhi's popularity increases. At present he is regarded as the spirited mainstay of the Chinese prodemocracy movement and is becoming the focal point of international justice and humanitarian solicitude. His speeches, by appearing in the European literature and writing, must be contributing to Westerners' understanding of the pursuits and the perspectives of the Chinese intellectuals, and are playing an active role in the promotion of the Chinese democracy movement.

Su Shaozhi Evaluates Deng Xiaoping

90ON0040A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 199, 1 Sep 89 pp 20-23

[Interview with Su Shaozhi (5685 4801 2535), an authority on Marxism, by Lu Keng (7120 6972); date, place not given: "System Causes Deng Xiaoping's Tragedy"]

[Text] Lu: Mr Su Shaozhi, we Overseas Chinese, all respect you very much. As far as China is concerned, the entire mainland is a so-called communist country which is ruled by the communist party. But very few leaders of the Chinese Communist Party really understand communism. Even Mao Zedong admitted this. As a matter of fact, Mao Zedong himself did not understand Marx either. All he did was read some secondhand or third-hand stuff written by Lenin and Stalin. But you are one of the few Chinese scholars who understand and have really studied Marxism. Your opinions are valuable, especially when China is facing such changes. This is the reason why I want to interview you.

Su: I am flattered.

Arriving in the United States Safe and Sound

Lu: Most people are more interested in how you arrived in the United States safe and sound at a time when large-scale massacre, arrests, and suppression are going on in China. Would you like to talk about it?

Su: I never thought that people like us could have been connected with riot, put on the blacklist, arrested, and suppressed. Last year, I was invited to visit and lecture at Oxford University in England, and I got my passport. The U.S. side invited me to lecture in the United States long ago. I submitted a report to the leaders of the Academy of Social Sciences, asking for permission to accept the U.S. lecture invitation in August. After I got approval from the academy, I went through the procedures for paperwork. Originally I planned to leave in August. About 3 and 4 June, some military friends advised me not to go out or receive guests carelessly, or even sleep in my own house at night. They said: Intellectuals like you will not be arrested openly but may be kidnapped. Only then did I realize the danger. On 6 June, Fang Lizhi sought asylum in the U.S. Embassy, and some friends persuaded me to leave. So I took my passport which already had a visa and left legally.

Beijing Shocks the Whole World

Lu: How do you view the massacre in Tiananmen Square?

Su: I look at it like this. In the current world, the Soviet Union has reversed the verdict of the great trial of 1933; Hungary has rehabilitated and restored the reputation of Nagy, who was killed in 1956; Poland's Solidarity Union has been recognized by the government as a legal organization and has been elected into the Council of State. This shows that many socialist countries have gone back

to the course of rational, democratic, and humanitarian development. The gunshots and the rumble of tanks in China's Tiananmen Square are bound to become a noise against the trend of times. Beijing's use of military means to suppress the peaceful democratic movement shocked not only the people of China but also people throughout the world.

Early this year, I once thought that if something went wrong, student demonstrations might lead to martial law. In February, when Mrs MacFarquhar, reporter of US NEWS AND WORLD REPORT, visited Beijing, I talked to her about this. Poland's Jaruzelski used martial law to deal with the Solidarity Union. Deng Xiaoping said he could understand this. So it was possible that the Beijing authorities would also declare martial law. But I had no idea that they would use machine guns, tanks, and flamethrowers to attack unarmed students and citizens. Until the night of 3 June, when I heard concentrated gunshots, I was still optimistic and thought that they were probably using rubber bullets. I still had the best of intentions. I never thought there would be bloodshed. However the occurrence of this situation was not accidental either.

Lu: It takes more than one cold day for the river to freeze 3-feet deep—the trouble has been brewing for quite some time.

Inevitability of Democracy Movement and Its Suppression

Su: I'd like to discuss this issue from two different aspects: First, why did the peaceful democracy movement of such large scale occur in China? Second, why did the Chinese Government use such an absolute measure to suppress the democracy movement? The occurrence of the incident itself was inevitable, but the adoption of such bloody measure was not inevitable.

Lu: The incident itself was inevitable. The violent suppression measure adopted by the authorities was only a stubborn and foolish reaction.

Su: Why did I say that the incident was inevitable?

Since the implementation of the reform and open policy in late 1978, the economic situation has improved, and many new factors, especially groups of entrepreneurs, have appeared in Mainland China. A large number of individual laborers have appeared. The social status of intellectuals has been raised slightly. In other words, new interest groups have emerged due to the reform and opening up. New interest groups are bound to demand political expression. In other words, economic pluralization should bring political pluralization. Political pluralization in essence means demands for democracy.

On the other hand, ideological liberation declared "liberating minds and starting apparatus." As a result, the intellectual circle, which had been suppressed for years, began to demand freedom of learning, creation, press, thinking, and publication. Therefore, an ideological

trend of freedom appeared, demanding change in the sphere of previously dominant ideology. I call it "a party, political, military, financial, and cultural ideology composed of the vestiges of feudalism and Stalinism" which has a very hard shell, a very hard-to-crack shell. The purpose of ideological liberation is precisely to crack this hard shell, so there has been constant struggle in the ideological sphere. The development of this struggle is in waves. Sometimes, ideological control was looser; sometimes, it was tighter. The struggle has been going on between efforts to crack the hard shell and efforts to protect it. The criticism of Bai Hua's *Unrequited Love* could be seen as an "antiliberalization" movement on a small scale. The following movement to "clean up ideological pollution" in early 1983 was also a continuation of the antiliberalization movement. But you can see that the reaction to every round of repression or suppression was very strong. Under pressure, people may be quiet for a little while, but following the quiet were greater waves of ideological liberation and the emergence of new academic viewpoints. In 1986, Deng Xiaoping brought up the political reform, and many new ideas sprang up. In 1987, the authorities staged a larger antiliberalization movement with greater momentum...

Lu: Even Hu Yaobang was brought down.

Su: At this time, the people quieted down again. After the 13th party congress, the situation was slightly relaxed. By the end of 1988 and the beginning of 1989, ideological liberation made great progress which was reflected especially in the following: Young and middle-aged intellectuals organized a variety of research organizations and held a series of forums. These forums also invited slightly older scholars to join the discussions and new ideas were brought up at almost every forum. The concentrated reflection of these ideas was a still stronger demand for democracy. Many modern schools of painting and music also appeared in society. The authorities tried, but failed to suppress them. Through the struggle to crack the hard shell, the people deeply realized that only a democratic, free system can guarantee academic and cultural development. Therefore, their desire for democracy and freedom became even stronger.

Intellectuals Declare Their Stance To Support Student Movement

The student movement may be considered the first sign of struggle for democracy. It was also widely supported by intellectuals. Before the authorities declared martial law on 20 May, almost all intellectuals had declared where they stood. Take Hu Sheng [5170 4939] for instance. He was the president of the Academy of Social Sciences...

Lu: This person is known for being conservative.

Su: Urged by Deng Weizhi [0002 1919 3112] and Li Shenzhi [2621 1957 0037], he agreed to issue a "letter of appeal of noted intellectuals in Beijing's social science circle" to demand that the government hold a dialogue with students, conduct self-criticism, and absolutely

refrain from adopting violent measures. Except for Zhao Fusan [6392 1788 0005], who was attending a meeting in France, all noted scholars of the Academy of Social Sciences, like Qian Zhongshu [6929 6988 2579] and Feng Zhi [7458 5267] signed the letter. The so-called "four famous performers"—Zhou Gucheng [0719 6253 1004], Fei Xiaotong [6316 1321 6639], Lei Jieqiong [7191 3381 8825], and Qian Weichang [6929 0251 7022]—also signed the letter. Of course, after martial law was declared on 20 May, some people withdrew. But most intellectuals still resolutely supported the students' ambition to fight for democracy. Some organized the "Northern Support Group" which was similar to Poland's Solidarity Union and was the first of its kind in Chinese history. There was also the "Northern Workers' Association." If these organizations were not suppressed, they could have very possibly developed into China's "Solidarity Union."

Lu: Deng Xiaoping's greatest fear was the occurrence of a "Solidarity Union" in China.

Su: After the declaration of martial law, troops tried unsuccessfully to enter the city. At that time, the democracy movement had spread to the level of citizens. The funniest thing was that nobody mobilized anything. Everything was spontaneous. Hearing that troops were entering the city, old men and old ladies all walked to the streets without prior agreement. Some simply sat in front of military vehicles to stop them from advancing. It was very touching.

Lu: It was amazing! It was really amazing!

Deng Xiaoping Himself Is Full of Contradictions

Su: It was indeed amazing! These spontaneous actions explain that the Chinese democracy movement centered in Tiananmen Square was not accidental. It has profound economic, political, cultural, and ideological backgrounds.

The occurrence of violent suppression was, first of all, a result of Deng Xiaoping's own problems. China's major issues are all decided by Deng Xiaoping, whose thinking has two enormous groups of contradictions. Usually, people consider Deng Xiaoping generally as a reformer, which is inaccurate. It depends on the sphere. He may be considered as a reformer and antileftist in the economic sphere, but, in the political sphere, he is antirightist and a conservative.

Lu: The antirightist movement in 1957 was directed by Deng Xiaoping. There is a reason for that.

Su: Because Deng Xiaoping himself is full of contradictions, when the struggle between reformers and conservatives becomes acute, he will unconsciously lean to the side of conservative old men—hardliners.

Not only Deng Xiaoping himself but also the entire history of Chinese political and economic development

are full of contradictions. In the 1960's, China implemented the "eight-character principle" economically—"readjustment, restructuring, consolidation, and upgrading"—but politically China put forward the principle of "taking class struggle as the key link." These two never seemed to be able to cross. The struggle between the left and the right continued until the Great Cultural Revolution. These two sets of Deng Xiaoping's own contradictions were not fully exposed until this suppression.

Why did I say this was inevitable? First, because under China's historical conditions, Deng Xiaoping is the highest policymaker. He can decide everything, so his own contradictions can make an incident unavoidable. Second, another inevitability is that the masses' demand for democracy implies that privileges will eventually be eliminated. In the past we dwelt on only one aspect of the reform and opening up, that it could benefit the broad masses of people, but under China's special historical condition of feudal autocracy, it also benefits those with vested interests. We have seen children of many high-ranking officials take advantage of the reform and opening up to get rich. They are old and new interest groups, so they are not afraid that the reform and the open policy would continue after large-scale suppression. Since they have combined money and power, carrying out political reform will smash their privileges. Such privileges are like the precious jade Jia Baoyu wears on his neck. It is his lifeblood. It is only natural that they will oppose taking away their lifeblood.

There was an actual example. When Deng Xiaoping started anti-bourgeois liberalization in late 1986, his children, Deng Pufang [6772 2613 2455], Deng Nan [6772 2809], and Deng Rong [6772 2827], had an argument with their old man. But this time, they all supported suppression. Not only Deng's family but most other high-ranking officials' children (Lu Keng interrupted: Like Yang Shangkun's and Wang Zhen's sons.) also supported suppression. Those whose fathers were not in power might have a different attitude, but those whose fathers were in power all joined their fathers in opposing the people. This explains that interest groups will try all they can to protect their interests. This also made the incident unavoidable.

Lu: In addition to these two inevitabilities, are there any other accidental factors in causing the bloody massacre?

Incompetence of Li Peng's Government Causes Bloodshed

Su: This must be blamed on Li Peng's incompetence. Had Li Peng's government been a little capable, he could have adopted a "tricky measure." He did not have to adopt the measure of direct suppression which could cause severe damage to popular trust in the party and the government. As far as Deng is concerned, his lifelong reputation (Lu Keng interrupted: Was destroyed overnight.) was lost irrevocably. The government's incompetence is reflected especially in the fact that it allowed the incident to go on for such a long time, thus losing many

opportunities. They could have avoided force completely and used other measures to solve the problem. They could have both achieved the purpose of protecting their vested interests and avoiding exposing themselves fully to the people of the whole world. So I think that the biggest loser in this incident is Deng Xiaoping. Since he could not have what he wanted, which was a grand slam in bridge terminology, he lost completely. I think he probably regretted it.

Secondly, both the masses and the government made some mistakes in tactics.

Lu: The masses of students failed to stop when they were winning.

Su: In my opinions, there were many opportunities they could have seized to break the deadlock. The first was the 26 April RENMIN RIBAO editorial. The second was the 19 May report declaring martial law. The third was 3 June when troops were sent to the city. During the period between 19 May and 3 June, troops tried but could not enter the city, social order was already very good, and students had already planned to withdraw from Tiananmen. Later, the massacre occurred and we do not know whether it was meant to be or caused by some kind of mistake. The student side also failed to adopt measures, seize the opportunity, and stop when they were winning. They should also sum up their experiences and lessons in Tiananmen Square.

Lu: This shows that there were no "backstage manipulators" plotting and manipulating behind the students. If there were "backstage manipulators" directing them or if there were think tanks from the intellectual circle like you devising strategies behind the scenes, students would have stopped when they were winning. This explains that this movement was carried out purely by students on a spontaneous basis.

Su: So it is ridiculous to blame so-called "premeditation" on us who do theoretical, academic, and media work.

My student Wang Yizhou [3769 0001 5297] and I wrote an article called "Outlook for 1989," which points out that there will be three major commemorations this year—the bicentennial of the great French Revolution, the 70th anniversary of the May 4th Movement, and the 40th anniversary of the founding of the People's Republic of China. The article states that these three major commemoration days will arouse us to promote science and democracy. But the Beijing authorities accused it of being a premeditated signal. How significant an article could be!

Lu: It was absurd, really absurd!

Su: It was indeed absurd.

Lu: Among the accidental factors of the Tiananmen Square incident, was there such thing as a misleading report to Deng Xiaoping? There was a rumor in Beijing that when Li Ximing [2621 6932 2494] and Chen Xitong

[7115 1585 0681] briefed Deng Xiaoping on the student movement, they made a misleading report. They deliberately exaggerated the part about the slogan "down with Deng Xiaoping." Deng's character is that if you want to bring him down, he will show you a thing or two by killing.

Deng Is Misled and Always Favors Suppression

Su: Judged by the development of events, it seemed possible. Li Ximing and Chen Xitong were the first to report to Deng Xiaoping. However, judged by Deng Xiaoping's three speeches on 25 April, 9 June, and 12 June, he has always favored suppression.

Lu: Since late 1986, he has always favored the suppression of the student movement.

Su: He never eased the suppression of liberalization in the past. He obviously intended to use the terrorizing effect of this event to solve the liberalization problem once and for all.

Lu: The massive arrests, cleanup, and suppression that are now going on in the mainland are very serious. There is a rumor that Deng Xiaoping proposed killing 20,000 and arresting 200,000 people in exchange for 20 years of stability.

Su: For instance, the Academy of Social Sciences is almost completely destroyed. There is virtually no organization left in China that actually conducts research on social sciences. Of course, if this Tiananmen Square incident were handled properly, the death of many elites could have been avoided, but the massive arrest after the incident could not be guaranteed. The blood of the massacre fertilized the Chinese nation (Lu Keng interrupted: Like green manure.) and sowed the seeds of democracy. I call it the function of a catalytic agent. After major bloodshed, most people realize that one-party dictatorship does not work, absolute power cannot avoid corruption, and only democracy can save the nation.

Lu: Therefore, from the viewpoint of arousing the democratic consciousness of the whole nation, the Tiananmen Square incident was not necessarily a bad thing. Of course, from the viewpoint of damage to the national lifeline, loss was enormous.

Su: This is why after the massacre the party had to make up all kinds of lies to cover up the bloodshed.

Lu: Plekhanov wrote a book called *The Position of Individuals in History*. It says that individuals have both positive and negative functions in history. Deng Xiaoping's role in the Tiananmen Square incident again explains that individuals indeed have great influence on the progress and regression of history.

Su: Such influence is greater, especially under totalitarianism, whereas under a democratic system like in the United States, an individual's role is limited.

Lu: This proves that system change is more important than personnel change.

Su: To eliminate the phenomena of Stalin, Mao Zedong, and Deng Xiaoping, we must eliminate autocracy and establish democracy.

Lu: Why is it that countries that use communism as guiding ideology are worse than feudalism and fascism? Is there something wrong with communism itself?

Problem Lies in Lenin's Principles for Party's Founding

Su: The problem lies mainly in Lenin's principles for the founding of the party. Lenin's principles for the founding of the party could not be considered wrong when the party was still underground because it was the only way to seize political power. But implementing Lenin's principles for the party's founding after political power was secured will result in great disaster. This is because proletarian dictatorship is only slightly different from fascist dictatorship.

Dictatorship is a means only for a revolutionary period. It is dangerous stuff. What Marx put forward was revolutionary proletarian dictatorship. Later Lenin and Stalin did away with the word revolutionary and turned it into permanent proletarian dictatorship.

Lu: Kautsky once criticized Lenin's theory of proletarian dictatorship. According to Kautsky, the proletarian dictatorship Marx used was only one sentence. It was not a set of theories on dictatorship like the one later developed by Lenin. What do you think about this point?

Su: Marx did not make a concrete analysis of future society. At that time, it was impossible to foresee so many things.

He only made some general methodological predictions and some Utopian fantasies. He did not draw conclusions on many issues. For instance, he did not draw conclusions on the question of whether one should adopt violent revolution or peaceful transition. The conclusion of violent revolution was drawn by Lenin under the condition of tsarist Russia. Marx's own Marxism is broad and farsighted. Lenin opposed revisionism that revised Marxism under the condition of developed capitalism. What Lenin did was revise Marxism under the autocratic conditions of tsarist Russia. Both of them revised Marxism.

Lu: Are Bernstein's and Kautsky's revisionisms the same thing or two different things?

Su: The same thing. Revisionism is not a bad thing. It is a good thing because it is to make it right!

Lu: Right. It is not to make it wrong. Judged by the definition of Chinese characters, revision is not a bad thing. Judged by the definition of German words, it is probably not a bad thing either.

Su: It was Lenin who declared revisionism the traitor of communism and expelled revisionists. So, for a very long period in the past, revisionism was considered as being notorious in the communist movement.

Lu: Stalin pushed Leninism farther to the left, so revisionism was further distorted. May we say that in Communist China, whether in the minds of Mao Zedong, Liu Shaoqi, or Deng Xiaoping, communism is actually Leninism and Stalinism?

Su: Yes, you may say so. Mao Zedong was not very familiar with Marx. What he came into contact with was, to a large degree, Lenin's and Stalin's works. He said: "The roar of the guns of the October Revolution sent us Marxism." In fact, the Marxism he mentioned was learned through Lenin's and Stalin's works. Later he accepted Stalin's model, which was even farther apart from Marxism.

System Causes Deng Xiaoping's Tragedy

Lu: Let's go back to Deng Xiaoping. I used to think that since Deng Xiaoping once drank the water of the Seine river—he once lived in France—he should be somewhat affected by the democratic and free atmosphere of the West. Moreover, the Great Cultural Revolution was so inhuman. We will leave other people aside for the moment. Let's take his oldest son, Deng Pufang, for example. He broke his back and lost his sexual ability. How could Deng as his father remain indifferent? Therefore, when he "took one step forward and two steps backward" in the reform, I always thought that he was forced to do so under the pressure of conservatives. But Fang Lizhi held a different view. He told me on 21 February in Beijing that Deng did not have any pressure from conservatives and that he decided everything by himself. Now facts have proved that Fang Lizhi was right and I was wrong. As a Marxist, how do you look at this issue?

Su: This question can be answered with Deng Xiaoping's own words. Deng Xiaoping said, "Mao Zedong's tragedy was not caused by his own character, but by the system." In the reform of the party's and the state's leadership system on 18 August 1980, Deng Xiaoping also emphasized the importance of system. But he has failed to establish a system, thus resulting in what I called a combination of remnants of feudalism and Stalin's system.

When Will China Get Rid of Stalinism

Lu: The situation in Mainland China is actually worse than Stalinism. You know that, don't you? Some high-ranking officials in Mainland China like Wang Zhen still want to pursue Stalinism. He openly announced that if Stalin's portrait is taken down from Tiananmen, he will never go there again.

Su: Why are they so mad at me? Because I was the first one to openly oppose Stalinism on the mainland. I said

that there are two great mountains: One is feudal autocracy; the other Stalinism. Why can't China criticize Stalinism? Because those in power themselves are Stalinists.

Lu: It looks as though Stalinism will be rampant for sometime in China. Binyan [6333 7159] has an optimistic view. He thinks that the current regime will have substantial changes in only 2 years. Jiaqi [1367 0366] has a similar opinion too. I am rather pessimistic about this. I think that it will take at least 5 years for Mainland China to completely get rid of the shadow of Stalinism. We are not fortunetellers. We all hope China can get on the road of democracy as soon as possible. How do you look at this?

Su: This depends on many conditions. If Deng is not dead, the situation will be different, and China will definitely get rid of Stalinism. Currently, we can see that the economic problem is very serious. Some have suggested practicing planned economy again.

Lu: That is too bad. We are going back to where we were.

Su: As a matter of fact, we cannot go back. Rural areas have implemented the household production contract system, how can you control peasants? Its scale is so extensive.

Lu: You can use coercion!

Su: Industrial and agricultural production is already running on empty. The more coercion, the less output. If the economic situation continues to deteriorate, changes are bound to occur in the higher echelons of the party. The student movement has proved that the party is not a monolithic bloc. High-level power struggles within the party will become increasingly acute as each day goes by. A bad precedent, namely using troops, was set this time and its influence is very great. The interference of troops in future power struggles indeed deserves our concern in the future.

How To Look at Marxism

Lu: You are a scholar of authority in Marxism. Others like Miss Ge Yang [2047 2254], Mr Wang Ruoshui [3769 5387 3055], and even Binyan all have deep love for Marxism. After the Tiananmen Square incident, the Soviet Union's reform, and East Europe's changes, how do you look at Marxism?

Su: I think that we should separate Marxism. Marx's Marxism is different from Lenin's Marxism, and even more so from Stalin's Marxism. Marxism has its position as a culture, ideological method, and social science. Marx's historical materialism has profound influence. He pointed out: A society will not die out when its productive force still has room for growth. Before the emergence of new productive forces and the ripening of new conditions, a new society will not appear.

Lu: Mainland China has existed for several decades, but in reality it has violated Marxist teachings. China did not

produce new productive forces for the construction of socialism. It tried to force it. No wonder it failed. Mao Zedong believed in the theory that willpower alone, not productive force, decides everything. Deng Xiaoping advocates developing productive forces, but he refuses political reform. Consequently, production relations fetter productive forces, and reform results are unsatisfactory. As a result, China is a socialist country only in name but not in reality.

Su: That is right. As I said before, Marxism has its position as a culture and a methodology of social sciences, but we must never consider every Marxist conclusion as doctrine. However many members of the CPC do consider Marxism as doctrine.

Lu: One of the "four adherences"—adhering to Marxism-Leninism and Mao Zedong Thought—actually means to adhere to the doctrine. There is an international opinion that Marxism is already outdated. How do you look at this?

Su: You introduced my article on Bukharin to XINBAO YUEKAN. I recently wrote another article for XINBAO YUEKAN. In these two articles, I used some new phenomena in current capitalist society to prove which part of Marxism is outdated and which is not.

Lu: That is great! I have to read them.

Su: I used the Marxist method of analysis to discuss this issue. For instance, acquiring proletarian qualities, dividing society into two opposing extremes, and "sounding the death knell of capitalism" are outdated, whereas theories such as the one on the relation of productive forces to the destruction of old society and the emergence of new society are not outdated. I also made detailed analysis based on the comparison of modern and traditional socialism.

New Republic Will Not Be Capitalist

Lu: I have an idea that if a political force emerges in the future to replace the current CPC in Mainland China, the new republic will not be capitalist. What is your opinion on this?

Su: Today many developed capitalist countries like Sweden are not purely capitalist either.

Lu: Sweden has many socialist practices.

Su: In my opinion, the Swedish model is I don't know how many times closer to socialism than the Chinese model.

Lu: Deng Xiaoping accused the people who supported this student movement of trying to establish a capitalist republic. I think he is obviously wrong. According to my contacts with democracy-conscious elites like you on the mainland in the past few years, I have discovered that most of you are seeking a peaceful, democratic, and humanitarian socialist republic.

Su: This road still needs to be explored by everybody.

Beijing Roll Call and Director of Marxism-Leninism Institute

Lu: Finally, I have a small question. What do you think about the fact that Beijing called your name?

Su: Judged from their ideological line as a whole, they tried to blame the "riot" on liberalization. I have indeed brought up many ideas on revising Marxism. For instance, I advocated political and profit pluralization. I was the target of attack in every movement, so I was not surprised to be attacked this time. But I had no idea that they would link me to the "riot."

Lu: Let's go back to our previous topic. How did you become the director of the Institute of Marxism-Leninism and Mao Zedong Thought of the Academy of Social Sciences?

Su: Hu Qiaomu discussed this with Yu Guangyuan. At first Qiaomu himself was going to be director. Since he was too busy, he let Yu Guangyuan be director. In 1982, Yu Guangyuan stepped down because of his age and recommended me for the position because I had written many articles. But whether Su Shaozhi was capable of holding the director's position was a very controversial issue at the time. Since Yu Guangyuan and colleagues of the institute all approved, I became the director. Later during his visit to China, R. MacFarquhar discovered a strange phenomenon; that is, in Mainland China most liberal people are those working at the Institute of Marxism-Leninism and Mao Zedong Thought. Another strange phenomenon was in Taiwan where he discovered that most liberal people are those working at the Institute of the Three People's Principles.

Lu: Wonderful! (Both men burst into laughter.)

Su: The biggest headache of Hu Qiaomu and his group is me, Wang Ruoshui, Li Honglin [2621 3163 2651], Yu Haocheng [0060 3185 2052], and Yan Jiaqi [0917 1367 0366] because we also interpret Marxism. But our interpretation is different from theirs. Our interpretation is widely welcomed by young people in schools. Theirs is resisted. Because of this, they see us as a thorn in their flesh. They have power, so they attack us in every movement.

Lu: In addition to "jealousy within the same profession," there is an issue of truth and falsehood here. This time you and Jiaqi have got out safely; Mr Li Honglin was unfortunately arrested; and Wang Ruoshui's and Mr Yu Haocheng's situations are still unclear. No matter how they attack us, one thing is certain. I am sure that they, not you, will be judged by history in the future. Take care!

Su: Thank you!

Li Lisan's Views on Role of Working Class Praised

HK0512071389 Beijing RENMIN RIBAO in Chinese
21 Nov 89 p 3

[Article by Zhong Gongyan (6988 0361 1750): "Give Full Play to the Working Class' Role as Main Force—In Commemoration of the 90th Birthday of Comrade Li Lisan"]

[Text] 18 November of this year marks the 90th birthday of Comrade Li Lisan. In remembering this proletarian revolutionary and outstanding leader of the Chinese workers movement, we should in particular remember his brilliant contributions to China's workers movement and unionism. From the early days of our party, Comrade Li Lisan was already directly involved in launching, organizing and leading the workers. The Anyan miners' strike led by him and Comrade Liu Shaoqi provided a forceful boost to the workers movements then in Jiangxi, Hunan, and the rest of the country. He was also one of the leaders of the celebrated May 30th Movement and the Wuhan workers movement, which took place during the Northern Expedition, and made an enormous contribution to the Chinese people's anti-imperialist, antifeudal struggle. On the eve of the founding of New China, he took part and presided over preparations for the reestablishment of the All-China Federation of Trade Unions in accordance with instructions of the party Central Committee. At the 6th National Workers Conference in August 1948, he was elected vice chairman of the All-China Federation of Trade Unions and was in charge of running its daily affairs up until the end of 1951. The birth of New China symbolized a fundamental change in the status of the working class in our country, transforming it from an oppressed and exploited class to the leading class in the country. The path that was to be followed by the working class under new historical conditions became a new major subject. Adhering to the guidelines of the party Central Committee, Comrade Li Lisan made important contributions to the creation of New China's workers movement. He worked indefatigably to build up the labor unions and organize the country's employees and workers rapidly in order to ensure the smooth progress of all aspects of labor union work. He presided over the drafting of important documents and policy regulations such as the charter of the All-China Federation of Trade Unions, PRC Labor Union Laws, and the PRC Labor Protection Code. At the same time, he carried out a thorough study of theories on labor unions and came up with several valuable ideas. He pointed out that, after acquiring state power, China's working class should spare no effort to take up the arduous burden of building New China and play an exemplary role in spearheading this endeavour. After dialectically analyzing the contradictions within state enterprises, he maintained that class confrontation and exploitation no longer existed, and that public and private interests were in complete harmony. Such harmony should be stressed by the party, management, workers, and collective in enterprises. However, he also

believed that concrete contradictions did exist between public and private interests, and that they should not be ignored. Instead, they should be resolved by giving due consideration to all sides and by employing harmonious methods. He proposed that labor unions should first grasp the harmony of public and private interests, continue to educate workers and raise their consciousness, strive to increase production output. At the same time, they should pay greater attention to and represent the workers' daily interests, and realistically carry out their functions of looking after the interests of both employees and workers. His ideas played a major role in laying down the theoretical foundation of our workers' movements. We can see Comrade Li Lisan's farsighted vision from some of his expositions including those on the need to rely closely on the working class and to give full play to the role of the working class as the main force in socialist construction.

The 2d Plenary Session of the 7th CPC Central Committee, convened on the eve of the birth of New China, explicitly put forward that the focus of the party's work henceforth would shift from the rural areas to the cities, and that in the cities it was necessary to rely wholeheartedly on the working class. Not all comrades at that time could fully understand this guiding ideology. With his experience with workers' movement and unions, Comrade Li Lisan made a theoretical exposition of this important guiding ideology that he had presented to the party Central Committee. He analyzed the new historical status, role, and responsibility of the working class. At the National Conference on Labor Union Work held in July 1949, Comrade Li Lisan explicitly pointed out, "If we say that the PLA [People's Liberation Army] was the main force during the war years, then the working class should be the main force during the period of economic construction. Our working class fully understands that we are different from the other ruling classes of the past. In the past, after the feudal class and the bureaucratic bourgeoisie had acquired power, they pursued their own interest by exploiting other classes and repressing the greatest majority of people. The working class is different. We cannot and should not use other people to enrich ourselves. We, the working class, can achieve emancipation only after the people of the entire country are emancipated. Our lives will improve only after the lives of the people of the entire country are improved. Hence, we, the working class, must struggle for the emancipation of the entire nation and of the entire people." It can be said that Comrade Li Lisan was one of the first persons to advance the view that the working class is the main force in economic construction. Facts have shown his view to be completely correct and to have provided guidance to our workers movement. Over the past 40 years, the working class in our country has proved itself to be indeed the main force in socialist construction with its resolute political stand of love for the party and for socialism, and with its actual demonstration of selflessness and hard work. And it is not presumptuous to say that if we had not relied completely on the working class as the main force, our

country could not have realized the major achievements that it boasts of today. In recent years, the concept of relying wholeheartedly on the working class has weakened. An extremely small handful of people attempted to create a so-called "middle class" in China to serve as their support force and to subvert our country's socialist system. Facts show that there can be no ambiguity on this all-important question of the status and role of the working class. As representative of progressive productive forces and of progressive relations of production, the working class possesses the characteristics of a progressive class that cannot be found in other classes and also points the direction toward which human society is developing. If we are to build China into a modern socialist power we should insist on the leading status of the working class, and firmly give full play to its role as the main force. As the nucleus of the new generation of collective leadership in our party, Comrade Jiang Zemin has explicitly pointed out several times the need to rely wholeheartedly on the working class. This is entirely correct and extremely important. In studying Comrade Jiang Zemin's speech and reflecting on the related views given by Comrade Li Lisan in the past, we cannot but appreciate the wisdom of this outstanding leader of the workers movement.

With this understanding of the need to give full play to the roles of the working class as the main force, Comrade Li Lisan paid great attention to the realization of democratic management of factories and enterprises. He maintained that the worker's zeal for labor and sense of being his own master should be established on the basis of self-awareness and free will. And to achieve this, it is necessary to democratize the management of enterprises, and, through democratic reform and improvement of the management system and of the production structure of enterprises, to fully manifest and ensure the workers' status and rights as master. Only after the workers genuinely feel themselves to be master of the enterprises will they then conscientiously approach all work at the enterprises as a master. Based on the above-mentioned understanding, Comrade Li Lisan put forward a series of concrete views on how to rely on the workers to carry out democratic management of enterprises. These views would later on have a positive impact on actual democratic management of enterprises. He pointed out that, first of all, it is necessary to focus on the building of a system for democratic management of enterprises; this means establishing and linking up structures and democratic channels to facilitate employee participation in entrepreneurial management. Especially in the case of state enterprises, aside from creation of a factory management committee composed of employee representatives, labor meetings and labor congresses should be held on a regular basis and organize discussions by employees and workers on such issues as production and worker benefits. The opinions gathered will then be submitted for further democratic deliberations and decision by the factory management committee. A final resolution is passed and management regulations formulated for

implementation. Second, it is necessary to handle properly the relations between a state enterprise's administrative organ and its employees and workers. On one hand, employees and workers should conscientiously adhere to the guidance of administrative heads, abide by labor laws, and perform their jobs competently. On the other hand, administrative and management personnel should foster a mass-based point of view, adopt the mass line, consult workers on an equal basis, and rely on the masses to run the enterprise well. On the role of labor unions in propelling democratic management of enterprises, Comrade Li Lisan also had several ideas. He maintained that, on one hand, it should endeavour to perfect democratic life within the union itself through self-improvement and rely on the masses in running the union; on the other hand, it should correctly handle relations between the union and party and administrative organizations so that the union can conduct its work boldly and responsibly, perform its functions, carry out its duties, and uphold the legitimate interests of its members. These proposals and views of Comrade Li Lisan are still relevant and meaningful to our entrepreneurial reforms today. He stressed that socialized big production cannot do without central direction and the manager's authoritativeness. Each of our enterprises should, through reform, set up a scientific system of management as well as a strict system of rules and regulations; there is no question about that. However, our enterprises are socialist enterprises and the workers' role as master in these enterprises should be demonstrated. The authority of a socialist enterprise's manager should not be founded on the basis of opposition to workers but on the basis of reliance on the masses. Central direction and democratic management should be integrated. This is an important principle that we should grasp firmly in the course of reforming our enterprises. The system of labor meetings vigorously expounded by Comrade Li Lisan has been enriched and developed extensively through the years and has proved itself to be a good system. It is a good way to attract workers and employees into taking part in democratic management of enterprises and should be carried out thoroughly.

Comrade Li Lisan also took seriously the self-promotion and self-improvement of the working class itself. He pointed out that if China's working class is to shoulder responsibility as the country's leading class it should reform itself even as it reforms the entire society. Without a high degree of consciousness among the working class, it would be very difficult to complete the task of building New China. It is imperative to educate the workers with Marxism-Leninism-Mao Zedong Thought, continue to raise their class consciousness, and gradually erase the various backward ideologies and ideas used by the reactionary ruling class to erode and divide the workers, such as feudalist guilds and the clique mentality. He called on the unions to launch effective work in political education in order to convert unions into a communist school for self-transformation of the working class, encourage and educate every worker into actively responding to and supporting the

party's various proposals and government appeals. In addition, through active participation in the various activities of the unions, the great mass of employees and workers will gradually develop a sense of organization and discipline inherent in collectivism. Meanwhile, in actual mass production, the working class will continue to improve its technical and operational skills through labor competitions to learn and surpass advanced entities. Today, as we review these views set forth by Comrade Li Lisan, we continue to learn from them. Compared with the early days after the liberation of the country, our country's working class has grown stronger, and the level of its consciousness and organization has also been enhanced considerably. However, this does not mean that the question of self-promotion and self-improvement of the working class no longer exists. In the lengthy process of building our country into a great, modern socialist power, our country's working class should always place great importance on the question of its self-promotion. Now that we have opened our doors to the outside world and are importing advanced science and technology as well as fine culture and ideas from

abroad, various decadent ideas from the capitalist world also seep into the country. As the most progressive class, our working class should continue to sharpen its ability to make distinctions, mobilize the entire society with its own progressive spirit and image, and resist the infiltration of decadent ideas. With regard to the upgrading of its own scientific and educational level and mastering of modern scientific techniques, our working class faces an even heavier burden. Hence, the demands put forward by Comrade Li Lisan before workers and union workers 40 years ago continue to be relevant today. Our working class and labor unions should become more mature and stronger and rally more closely around the party Central Committee. They should give fuller play to their role as the main force in socialist modernization and in the course of reforms and opening up by following the line set down at the 3d Plenary Session of the 11th CPC Central Committee. They should persist in self-reliance and hard struggle and make greater contribution to the building of socialism with Chinese characteristics and to realizing the lofty ideals of the working class. Only in this way can we best honor the memory of Comrade Li Lisan.

NATIONAL AFFAIRS, POLICY

Dual Mission of Next Step of Reform

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[Interview with Wu Jinglian (0702 2417 8834), executive director of the Economic, Technological, and Social Development Research Center, by CHING-JI TAO-PAO reporters He Yiwen (0149 0076 2429) and Ouyang Chaosong (2962 7122 6389 2646); "Next Step of Reform Has Dual Mission," date and place of interview not given]

[Text] *Mr. Wu Jinglian published an article "How Can the Chinese Economy Avoid Stagflation?" in Issue 2107 of CHING-JI TAO-PAO earlier this year. In the article he argued that judging from the present work, a temporary retrenchment of an adjustment nature is necessary, but in the long run, going back to the old system offers no solution. Besides, there is just no going back now. The future of China's economy still lies in moving forward, in intensifying reform across the board.*

The interview took place after the 4 June events. He believes that the next step of reform has a dual mission: to further transform the old system of the past 30 years and to correct the mistakes made in the course of reform in the past decade.

The Root Cause of the Turmoil Is Economic

[CHING-JI TAO-PAO] Will the latest Beijing incident affect the economy very unfavorably?

[Wu Jinglian] China's overall economic situation now is not all that different from what it was when your magazine published my article early this year. The situation then was already rather grim, the accumulative result of the errors committed by the government in its guidance work in the past 5 years and has little to do with the recent events.

The recent political turmoil—so many people taking to the street to confront the government by marches and rallies, very radical moves—gives us an idea of the intensity and seriousness of the social contradictions caused by government mistakes in guidance work in the last few years. Through marches and demonstrations, people vented their dissatisfaction with the three major social problems that have arisen recently: inflation, unfair distribution, and prevalent corruption. And the root cause of these problems lies in the mistakes in guidance work in the past several years. I think that guidance work in these years has erred by deviating from the development strategy and the policy of reform and openness adopted by the 3d Plenum of the 11th CPC Central Committee. It has erred in mainly these two ways. First, there was an impatience for instant success. Inflationary policies were resorted to so as to bring about fast growth. Second, myopic reform policies stressed

"delegating power and allowing enterprises to keep their profits" and dismantling old institutions and ignored the creation of new institutions. We shied away from fundamental reforms indispensable to the establishment of a socialist commodity economy but were keen on novel flashy gimmicks that have no substance and have taken us neither here nor there. The result is chaos in the entire economic system, unfair distribution, and worsening corruption. The economic system can neither allocate resources rationally nor inspire the people to produce with enthusiasm. Despite a high economic growth rate, there is no economic efficiency. We muddled through by printing banknotes and found ourselves trapped in a vicious circle.

Actually, the vicious circle first appeared back in late 1984 but worsened significantly in 1986 and was simply unsustainable by 1987. Zhao Ziyang's consistently negative and obstructive attitude toward rectifying the economic climate and restoring economic order only exacerbated the crisis further. Meanwhile, the people became more and more dissatisfied. Consequently, there would have been hard times this year even without the current trouble.

Restoring Command Economy Is No Way Out

[CHING-JI TAO-PAO] After 4 June, will the government adjust the economic development model?

[Wu Jinglian] The events no doubt have complicated economic development and reform. On the other hand, they have given us a new opportunity to carry out reform measures that we did not have the resolve to do, or which we resolved to but could not do.

It should be pointed out that despite this favorable opportunity, our next step would be a very difficult one. This is the current situation. The old order has broken down, but the new one has not been put on a sound footing. The entire economic system has gone topsy-turvy in the last few years. We need to put things back in order. There are two approaches. One, we could rely mainly on command planning with modifications. These days some people contend that reviving the command economy for a certain period of time is something we should consider. To me, it provides no solution to our problems.

In the pre-reform days, a case might have been made for making modified command planning the economic system for the period of economic structural readjustment. But we cannot do so now. This is because the absolute universal dominance of the state economy and quasi-state economy has now been broken and it would be difficult to restore the order of command planning. Besides, our present apparatus and cadres are not in a position to carry out rigorous disciplined command planning.

Since the first approach will not work, I think we can only follow the second approach: press on with reform. The old order is gone for good, we have no choice but to

build a new order. Over the past few years some people argued that we destroy, not create, as if getting rid of the old system was itself a victory. In reality, destroying the old systems does not mean that a good system would naturally take its place. What it does mean is institutional chaos. What we must do now is to affirm achievements and correct mistakes after systematically reviewing our decade-long experience in reforming the open policy and press ahead with reform in the direction of the planned commodity economy.

Any major reform measures are bound to change the pattern of interests significantly. Some people will benefit from the change, while the vested interests of others will be hurt. If we were better endowed financially, we could do more in terms of offering subsidies to decrease the number of people whose vested interests are affected. However, by delegating power and allowing enterprises to keep their profits again and again in recent years, the national treasury has been badly drained. This has increased the resistance to and risk of reform.

However, while the difficulties are enormous, there is still a way out. If we press ahead with reform in the direction of the planned commodity economy, the mechanisms will be improved and efficiency will increase. That way the national economy will gradually enter a benign circle.

Major Content of Reform

[CHING-JI TAO-PAO] In your opinion, what should reform consist of?

[Wu Jinglian] I think we should tackle the three related areas of macroeconomic regulatory system, market, and enterprise as resolved by the National Party Congress in 1985 and laid down in the Seventh 5-Year Plan.

To rectify the economic environment and restore economic order, we should first vitalize the macroeconomic regulatory system. However, no macroeconomic regulatory system can function effectively in the absence of a healthy market environment. For instance, we have to adopt a slanting policy to adjust the structure, lowering this and raising that. But given the presence of irrational prices and the absence of a universal standard, what you think is low may in fact be very high. Add an extra factor, the result may be abnormal development. But if you remove a factor, it will undermine the development of the sector that you hope to strengthen. Under these circumstances, regulation will not work properly. Therefore, improving the market is the foundation of an energized macroeconomic regulatory system.

The situation today is the same as that described in my article published in CHING-JI TAO-PAO early this year. Gross social demand has not been checked. Meanwhile, the economic structure continues to deteriorate. To turn this situation around, the power of the central government to regulate and control must be enhanced.

The third link is the enterprise. The contract system currently practiced by state enterprises is a nonstandard target evaluation method. The past planned target evaluation method was based on the average in the industry concerned. Now the contract base is negotiated one on one. There is a number for each case. For this method to work properly, we must fix everything—direction of production, product varieties, the supply conditions of inputs, the marketing conditions (including prices) of products. But once these things are fixed, the factory director or manager has little decision-making authority worth mentioning. This method goes against the market economy entirely. Thus the system must be gradually improved. It should be replaced by a regular business accounting system whereby an enterprise pays taxes as required by law, contracts after paying taxes, and is evaluated by the standard profit margin in the industry. In the future, large enterprises should adopt a shareholding system dominated by public ownership.

Dual Efforts in Reform

[CHING-JI TAO-PAO] Do you see a need to revise the reform objectives put forward by the CPC Central Committee?

[Wu Jinglian] No, I don't think so. And, as far as I know, neither do the overwhelming majority of leading cadres and the general public. A few people think that we tried to be too market-oriented too quickly in the past. To my mind, however, Zhao Ziyang's mistake is not his impatience to introduce market mechanisms, but, (1) he took a hesitant want-and-see attitude toward price reform, preventing the formation of a competitive market, and (2) to win the support of governments at all levels and departments in charge, he resorted to administrative powersharing methods, which only exacerbated market separatism and protectionism. Adhering to reform and the open policy adopted at the 3d Plenum of the 11th CPC Central Committee, not changing them, is precisely the way to correct these mistakes.

[CHING-JI TAO-PAO] In view of your comments above, would the next step of reform have a dual mission: further transform the old system and correct the mistakes committed in the course of reform?

[Wu Jinglian] That is correct. Generally speaking, the goal is to reform the 30-year old system and establish a planned socialist commodity economy in accordance with the objectives put forward by the 3d Plenum of the 11th CPC Central Committee. But reform in recent years has deviated from this goal and is reform in name only. It has led us down a side road, one which I call the "monetary economy of administrative coordination." From the perspective of economic monetarization, the monetary economy of administrative coordination seems to be quite close to our goal. However, if the basic coordination is not performed by a managed market but by administrative departments in charge, then it differs little from the old system. Besides, the monetary economy of administrative coordination is a dead end.

Once we go down this road, we will be stuck and may find ourselves further and further away from the socialist commodity economy in which the "state regulates the market and the market guides the enterprise." What we need to do now is to open a new path that would lead directly from our present position to a market.

The Prospects of Reform, the Open Policy, and Development

[CHING-JI TAO-PAO] Leaders of the central government recently reiterated that reform and the open policy must be adhered to. It is certain that the principle would not change, but in what ways will detailed policies change?

[Wu Jinglian] Right now people have just begun shifting their attention from political to economic issues. The principle will not change, but the detailed plan is still in the process of being worked out and we still need to consider what route we are going to take. However, we are now off to a good start. People are realistically assessing the economic situation as well as the economic development and economic reform of the past few years. Over the last several years we debated endlessly the relationship between reform, construction, and the improvement of living standards, whether administrative powersharing is consistent with the general direction of reform, and whether the double track pricing system can be sustained permanently. Now a greater measure of consensus is emerging on these issues. I believe that on the basis of this consensus, China is fully capable of working out and implementing a feasible plan to turn the economy and fiscal situation around soon so that the national economy can develop steadily on a long-term basis.

Perfecting the Contract Management System

90OH0120A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 30 Oct; 1, 2 Nov 89

[Article: "Yuan Baohua (5913 1405 5478) Answers Our Reporter's Question How to Perfect the Contract System (1)—Immense Benefits From Implementing the Contract Enterprise Management Responsibility System—During the First 8 Years of the Contract System, Enterprise Profits as well as Taxes and Profits Turned Over to the State Increased at the Rate of 2.73 and 0.13 Percent, Respectively—During the last 2 Years of the Contract System, the Said Two Items Increased at the Rate of 11.1 and 11 Percent, Respectively"]

[30 Oct 89 p 1]

[Text] *Editor's Note: The discussion of "How to Perfect the Contract System," started by this paper on 6 October, has elicited strong responses from our readers, and many readers wrote in and participated in this discussion. To enable a better understanding of the contract system, to help perfect the contract system, and to dispel misgivings, shown at certain places and among certain enterprises, with regard to the contract system, our reporter Ding*

Genlu [0002 2704 7627] arranged a special interview with Yuan Baohua, president of the National Association of Enterprise Managers, requesting him to speak on the benefits of the contract system, on why and how the system should be maintained and perfected. Today we publish part 1 of the interview, parts 2 and 3 will follow later.

The contract system is at present a question that everyone in the country is concerned about. To have the JINGJI CANKAO take up this question of so very topical of social interest for an open discussion is indeed a commendable approach. I have read every article of the discussion that was published in your paper. Practice is the sole criterion of truth, and truth gains in clarity the more it is debated. It is to be hoped that the JINGJI CANKAO will continue the debate and direct public attention to the need to uphold and perfect the contract system, and that this will lead to an improvement of enterprise operations and will promote production.

It is well known that the CPC Central Committee and the State Council fully endorse the contract enterprise management responsibility system. The Report to the 13th CPC National Party Congress and the Resolution of the 3d Plenary Session of the 13th CPC Central Committee, the "Enterprise Law" passed at the Seventh National People's Congress, as well as Comrade Li Peng's Report on the Work of the Government, all demonstrate that the contract system has been engendered by the deepening of the enterprise reform, and that it must be unswervingly maintained. Comrade Li Peng has, furthermore, made it his firm policy to maintain and perfect the contract system, and said so not only at a recent meeting of the Standing Committee of the State Council, but also at discussions held during his visits of inspection to the three Northeastern Provinces and to Inner Mongolia, and at the National Day reception. Leading comrades, staff, and workers at all localities and in the enterprises must, without the slightest hesitation, earnestly and firmly work toward an improvement of the contract system, must by every means possible overcome the present difficulties, must ensure the steady development of production, and contribute toward improving the economic environment, rectifying the economic order, and deepening the reform.

Since the initiation of the contract management responsibility system over large areas in 1987, numerous comments have been made from all directions. Many comrades have also put forward various ideas on reforming the enterprises, such as a shareholding system, separate channelling of tax revenue and profits, and so on. This is a normal phenomenon. Through discussions, people will broaden their field of vision and gain beneficial inspirations. Any reform plan is examined by the state according to the principle of "practice is the sole criterion for truth." Every new idea is given an opportunity to be tested, but at the same time none will be hastily introduced before having proven its effectiveness. It has been this way in the past and will be so in future. For instance, in the question of separate channelling of tax

revenue and profits, the time has now come to take a positive attitude, and to appropriately expand the test area. Only after having proven effectiveness in practice will a method be gradually introduced.

Initiation of the contract management responsibility system at the enterprises has mobilized strong enthusiasm among the many enterprises and their staff and workers for increasing production and practicing economy and for increasing income and curtailing expenditure. It has stimulated the zeal of enterprises to deepen the reform, has gained remarkable economic benefits, and as a matter of course has received the endorsement of the CPC Central Committee and the State Council. I intend to take this opportunity to analyze this situation realistically and systematically. This is extremely necessary in order to open up a fruitful discussion and to dispel apprehensions among the people.

We have to affirm that enormous benefits have resulted from the contract system. The contract system has induced enterprises to raise their economic efficiency, a fact that has been proven during the testing stage. Otherwise, it would not have shown so strong a vitality, and would also not have been accepted over so wide an area. During the period from 1983 to 1986, the state tested the contract system at over 20 large- and medium-sized enterprises. Most of these enterprises achieved progressive annual increases of profits of over 20 percent. At the same time, the two provinces of Jilin and Guangdong, where the contract system was widely introduced comparatively early, also achieved excellent economic results. As taxes and profits turned over to public finance increased and profits retained by the enterprises increased, benefits were reaped by the state, by the enterprises, and by their staff and workers. During the same period, enterprises without the economic benefits of the contract system generally showed a retardation in their growth rates, and for 20 months experienced a continuous decline in enterprise profits. To achieve a change in this situation, the State Council decided, on the basis of an earnest consideration of experiences in the enterprise test cases, to gradually institute, beginning in April of 1987, the contract enterprise management responsibility system throughout the whole country. Take, for instance, Beijing; it was there, that in order to achieve a quick turn-about in the passive situation of ever declining production and economic efficiency during the first half of 1986, the contract responsibility system was instituted throughout the entire municipality. Practice has proven that instituting the contract enterprise management responsibility system is the correct choice in view of the realities of China's economic condition. This does not mean that it can be successfully instituted in reliance on only the subjective ideas of certain people.

The important effect of the contract system was that it ensured the steady growth of the state's financial revenue. Particularly during the last 2 years, great changes

have occurred in the external environment of enterprises, and they have had to face many difficulties. It is here that the contract system was able to stand its tests. Top-ranking comrades in all the various localities took a direct hand in the implementation of the contract system. At all levels, from departments of highest authority down to enterprises, operational systems were basically established that were consonant with the contract system, thereby raising productivity in contract enterprises to over 90 percent and achieving remarkable economic benefits. This can be demonstrated with two sets of figures: First, during the 8 years from 1979 to 1986, industrial enterprises achieved a 2.73 progressive budgetary annual increase in their profits, while after instituting the contract system, the annual progressive profit rate rose to 11.1 percent during 1987 and 1988. Increased profits during the 2 years after introduction of the contract system even exceeded by 3.8 billion yuan the total profit increases during the preceding 8 years. Second, during the period from 1979 to 1986, profits and tax turned over to the state by industrial enterprises within the budget increased at the rate of 0.13 percent, while after introduction of the contract system, profits and taxes turned over to the state in 1987 and 1988 increased annually at the rate of 11 percent, which immensely increased the financial revenue of the state.

While engaged, since the start of the year, in improving the economic environment and rectifying the economic order, contract enterprises firmly adhered to the policy of deepening the reform, and by doing so were able to firmly stand the serious tests posed by their economic environment and the turmoils of the time, which again demonstrated the strong vitality of the contract system.

[01 Nov 89 p 1]

[Text] At the present stage, and for a considerable length of time, China must persist in the continued implementation and perfection of the contract management responsibility system. The following points will explain why this is necessary.

First, the contract system is an operational mechanism, elaborated in the course of practical reforms, found suited to the national conditions of China, and conforming with the present level of China's productive forces and level of management, as it is also a new experiment in the state's control of enterprises by legal means. China's national condition determines the need to firmly adhere to the four cardinal principles and to persist in reform and opening up to the outside world. This question was already brilliantly expounded by Comrade Jiang Zemin in his National Day speech. How can this be done while firmly maintaining an unchanging system of ownership by the whole people and at the same time endowing the enterprises with the vitality of socialist producers and traders of commodities? The key to this question is a merging and organic integration of the "two fundamental demands." The contract system is first of all maintaining a firm stand in favor of the public ownership system, in opposition to privatization, and is

distinctly opposed to any inclination toward privatization that would dismember the system of ownership by the whole people. At the same time, it must counter the defects of the old management system with its muddled responsibilities, and must, in a selective way and according to the theory that ownership rights and management rights can be separated, entrust the operational and managerial rights with regard to property owned by the whole people to the enterprises, endowing them with abundant viability and vitality, so that they may exert efforts toward development of the planned commodity economy. The core of enterprise reform in China during the last 10 years was to select the most viable and to entrust them with the buildup of an enterprise management mechanism in which responsibility clearly attaches to certain persons at every level, which ensures a high degree of efficiency in production and management, and which provides encouragement as well as restraints. If it is said that we may in future have some system to replace the contract system, that system must be better than the contract system in the two respects that we have mentioned; so far, no such system has been found.

Second, having been tested in actual practice, the contract system has proven to be a successful operational and managerial system. During more than 2 years, China has had great success in many areas in its widespread implementation of the contract system. It has forcefully promoted development of enterprise production and has raised productivity. It has ensured a steady increase in the state's financial revenue. It has enhanced the capability of enterprises for self-development and self-reform. It has strengthened enterprise logistics. Living standards of staff and workers continuously improved in the wake of production development. The quality of enterprise management improved. Many advanced managerial methods and advanced technologies were absorbed and employed by the enterprises, and it has fostered a spirit of hard and arduous work among the enterprises. In summary, after initiation of the contract system, the distribution relationship between the state and the enterprises has improved, the cohesiveness of enterprises was strengthened, and the spiritual appearance of enterprise managers as well as staff and workers took on an entirely new look. In this respect, the JINGJI CANKAO has published many typical examples, and I will not say more about it here.

Third, maintaining the contract system is a necessity for the revitalization of the large- and medium-sized enterprises owned by the whole people. The large- and medium-sized enterprises are the foundation of the national economy; they are also the mainstay of the state's financial revenue. In a resolution on economic structural reform, the CPC Central Committee pointed out: "Revitalization of our enterprises, especially of the large- and medium-sized enterprises owned by the whole people, is the core link in the entire economic structural reform." At the 4th Plenary Session of the 13th CPC Central Committee, Comrade Jiang Zemin pointed out that efforts will be made to effectively revitalize the

large- and medium-sized enterprises by every possible means. According to data of the State Statistical Bureau, tax and profit turned over to the state in 1987 (calculated at constant prices) was 23.7 yuan out of every 100 yuan product value in the case of large enterprises, 16.82 yuan in the case of medium-sized enterprises, and 11.31 yuan in the case of small enterprises. For enterprises not owned by the whole people, the figures were 9.69 in the case of large enterprises, 10.22 yuan in the case of medium-sized enterprises, and 6.82 yuan in the case of small enterprises. It was more or less the same in 1988. These figures show the great significance of developing enterprises owned by the whole people for the raising of economic benefits of the entire society. However, since the second step in the shift from profit-delivery to taxation, large- and medium-sized enterprises owned by the whole people have paid large amounts of tax, and small enterprises and township collective enterprises have paid little tax, which has gradually led to a proliferation of the small enterprises and township collective enterprises, which were then squeezing out the large- and medium-sized enterprises in the use of capital, energy, and raw materials. Add to this the effect of the financial stringency; there was indeed no way to adjust and reduce the tax burden of the large- and medium-sized enterprises owned by the whole people. Recognizing the effects of the second step of shifting from profit-delivery to taxation, and presupposing the need to ensure an increase in the state's financial revenue, the contract system encouraged enterprises to create more and retain more, and in reliance on their own strength and efforts to extract themselves from the passive situation of bearing a much larger tax burden. Large enterprises, such as the Capital Iron and Steel Complex, the Jilin Chemical Engineering Corporation, the Jiamusi Paper Manufacturing Plan, and others, have gone this way of self-development through the adoption of the contract system, and have come to display an abundant vitality.

Theory is the sublimation of practice. I believe, following the perfection and development of the enterprise management contract system, people will gain a deeper understanding of it, and that a theory of the contract system will gradually evolve, and that the theory, with greater emphasis, will expound the need to maintain and perfect the contract system.

[02 Nov 89 p 1]

[Text] The widespread implementation of the contract system in China began in April 1987. By now, over 90 percent of all of China's industrial and commercial enterprises owned by the whole people practice one form or another of the contract system. Since the system has been in operation for only 2 years, experiences have been limited and supplementing rules and regulation are still imperfect, while certain imperfections have indeed shown up in the course of its implementation. The most conspicuous ones are: basic figures for some enterprise contracts were set at an irrational level, basic figures were inordinately low, and some contracts had too low a rate of progressively increasing profits to be turned over

to the state, or too little of the profits in excess of the basic figures were to be turned over to the state, while enterprise retained too much of these profits. Some enterprises, particularly those with short-term contracts and small badly managed enterprises, engaged in short-sighted activities. In some enterprises control of consumption funds was lax, and consumption increased rapidly, with inordinately large bonus and welfare funds derived from retained profits. In some enterprises, especially in small enterprises, managers received too large incomes, which adversely affected the relationship between managers and their staff and workers. In some enterprises there was the phenomenon of "management being replaced by contracting," thus neglecting internal management work.

To resolve these problems, it is in my opinion necessary to institute the following remedial measures:

1) According to the scope of contracting stipulated the "Regulations Governing Contracts" consideration must be given to both, the steady increase in revenue of public finance and the logistics for strengthening enterprise development. For enterprises that deserve to be promoted in accordance with the state's industrial policy, a contract form of "two contractual binds and one linkage" must be adopted (i.e. contracting for profits to be turned over to the state, contracting for technological improvements, and linking wages with productivity). As to profits to be turned over to the state, the method to be adopted must mainly be one of contracting for a progressively increasing amount of profits to be turned over to the state, or contracting with a basic figure of profits and sharing in the profits in excess of the basic figure.

2) Fixing a rational contract base figure so that contributions to the state will increase. In view of the present financial stringency of the state, base figures must be redetermined when enterprises extend their contracts or enter into new contracts, with the principle in mind that they should make greater contributions. Base figures must be fixed rationally in accordance with the demands of the state's industrial policy, with reference to the average interest rate for capital in the locality and among the trade in question, and must be based on the way the enterprise has fulfilled its preceding contract, as well as with consideration of the heavier or lighter financial burden occasioned by the need for technological transformations and of anticipated beneficial results. Where the contract figure for the preceding period, or the progressively increasing rate for the share of profits to be turned over to the state, has been inordinately low, or where technological transformations are already showing beneficial results, the basic figures have to be adjusted. New loans taken on by an enterprise after it has entered into a contract must all be paid back out of the enterprise's own unrestricted funds, and no "dual track for income and expenditure" shall be allowed.

3) Rational utilization of profits retained by enterprises, increasing production development funds. Profits

retained by enterprises should ensure the needs of technological transformations and production development. According to the varying conditions of beneficial results achieved at different enterprises, the share of the production development funds must be fixed, and a rational difference must be reflected in the welfare and bonus funds. For instance, would it not be possible to consider that the share to be used for production development, after payments to the energy and communications funds and budget adjustment funds, be generally not lower than 40 percent for cases where the average per capita retained profit is below 1,000 yuan; for the 2,000 to 3,000 yuan cases, generally not lower than 60 to 70 percent; and for the cases over 4,000 yuan, not lower than 75 percent. The various localities may issue more specific regulations according to their local conditions.

4) Perfecting the checking system, correctly guiding enterprise actions. Contracts must conform to the demands of the "Regulations Governing Contracts." In addition to checking actually achieved profits, profits turned over to the state, and proportions of sharing income in excess of the progressive increase rate, it is necessary to conscientiously check technological progress and the various norms for enterprise management, including the state's mandatory planning, technological transformations, product quality, consumption of materials, safety of production, and so forth. The management contract must be strictly fulfilled, and rewards granted and penalties imposed in accordance with checking regulations.

5) Perfecting the linkage of wages with productivity, controlling the excessively rapid growth of consumption funds. All localities must conscientiously observe all relevant provisions prescribed by the State Council concerning the contract system, and must actively implement a linkage of the total wage payroll of all regions, departments, and enterprises with their productivity. When utilizing the wage funds, allocated according to productivity, a certain margin should be retained to establish a system of wage reserve funds to provide a reserve in times of abundance for times of need. Enterprises that do not link wages with productivity should best use a method of contractual fixing of the total wage payroll. The state's regulations regarding the wages adjustment tax and bonus tax must be strictly enforced. Enterprises that issue excess productivity wages or bonuses, must pay tax according to regulations. In case of indiscriminate issue of allowances, subsidies, and materials, the responsibility of managers for such actions shall be closely investigated.

6) The income of managers shall be determined according to the "Regulations Governing Contracting." When fulfilling the contract and determining manager incomes, the principle shall be that an audit shall precede actual fulfillment or payment. According to the results of business operations and the size of the contribution, annual incomes of managers (all income, including allowances, individual bonuses, and others) may be 2 to 4 times the average annual income of staff and workers

of the enterprise in question. Within these limits, the various localities shall determine the specific conditions for manager incomes, to be 2 to 4 times the average staff and worker's wages. If it becomes impossible to fulfill the contract, the said income must be reduced correspondingly. The distribution plan for managers and other members of the contract leadership team must be deliberated upon by the staff and workers representatives assembly and reported to the relevant higher authority for approval; there shall be openness in matters of income. The method of granting a share in the excess over base figure retentions to managers shall be abolished. If due to the irrationality of regulations, manager incomes in present contract enterprises exceed the limits prescribed by the "Regulations Governing Contracts," the portion that exceeds the regulations shall in full be allocated to the production development fund or used to establish an enterprise risk insurance fund.

Nothing can possibly be 100 percent complete and perfect in its inception. Everything must be continuously perfected and developed in the course of actual practice. This also applies to the contract management responsibility system. As long as we can handle this matter conscientiously and not evade the problems arising during the implementation of the contract system, the enterprise contract management responsibility system is bound to achieve perfection in the course of its actual application.

Article Examines Ways To Improve Contract Management System

90OH0119A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 29 Oct 89 p 1

[Article by Zhu Sizhe (2612 1835 3419) of the State Administration of State Property: "Four Changes That Are Necessary To Perfect the Contract Management System"]

[Text] I think that it will be necessary to make the following four key changes to perfect the enterprise contract management responsibility system:

I. The Present Joint Tax-Profit Contracts Should Be Changed to After-Tax, Separate Tax-Profit Contracts

Since the enterprise contract management responsibility system that is currently in effect was based on the second phase of the substitution of taxes for profits, enterprise contracts actually cover both income taxes and regulatory taxes along with profits. This has caused the problem of the state being unable to distinguish its social management function (taxation according to law) from its state property ownership function (administration of property income, or profits). The basic way to resolve this glaring conflict in the enterprise contract management responsibility system will be to put into effect as quickly as possible after-tax, separate tax-profit contracts. That is, enterprises should first pay income taxes according to law on their realized profits, then pay a fixed percentage or the contracted amount of their

after-tax profits, and finally keep the rest. The following three jobs must be done well to put into effect after-tax, separate tax-profit contracts: 1) currently excessive income taxes must be reduced; 2) the regulatory tax category should be eliminated, and the amount of regulatory taxes that would have been paid should be included in after-income-tax profits; 3) the provision that made enterprises repay fixed asset loans with pre-income-tax profits should be abolished and changed to allow them to repay them with their retained funds;

II. The Present System of Contracts Being Made by Too Many Contractors Should Be Changed to Their Being Made by a Single Contractor, or Administration of State Property Departments

There is a problem in the contract management responsibility system that is currently in effect of contracts being made by too many contractors. Departments, such as finance, taxation, banking, restructuring of the economic system commission, labor, and economic committee, have all become contractors that make contract management contracts with enterprise contractors. This has created the situation in which enterprise contracts are everybody's business, while no one is able to take the full responsibility for them, and left some contracts in the state of being unable to be fulfilled, while there is no one to find out why. China's administration of state property departments have now been set up at all levels. As the delegated owners of state property, administration of state property departments exercise the representation of state property ownership, the authority to supervise and administer state property, the authority over state investments and profits, and the authority to dispose of property, that are entrusted to them by the state. Thus, in order to put into effect after-tax, separate tax-profit contracts, it has become imperative for administration of state property departments at all levels to be the only contractors in the enterprise contract management responsibility system. They should sign contracts with enterprise managers, supervise and administer the enforcement of enterprise contracts, take part in enterprise after-tax profit distribution, and collect the contracted profits that enterprises should pay;

III. Setting of Contract Payment Quotas Should Be Changed from the Present "Base Method" to an "Input-Output Method"

The payment quota bases that are currently in effect for contract enterprises are calculated and set according to the actual amount paid into public finance in the preceding year. This method of calculating and setting payment quota bases is both a bit of a gamble, and is also irrational in that similar enterprises that are managed well pay more, while those that are managed poorly pay less. Thus it will be necessary to use the input-output method to set enterprise contract payment quotas. That is, the ratio between the amount of state property invested by the state in similar trades or similar types of enterprises and the income from state property earned by the enterprise, should be used to calculate and set

specific payment quotas for each contract enterprise. Specifically, the average state fund-profit margin should be the basis for calculating and setting payment bases. The average state fund-profit margin can be formulated separately for regions and industries according to regional, industrial, and enterprise differences, and can be graded according to advanced and overall averages.

IV. The Present Contracts, Which Make Enterprises Responsible for Their Profits but Not for Their Losses, Should Be Changed to Full Venture Guarantee Contracts

The present situation in enterprise contracts is that it is easy for contracting enterprises to fulfil contracts from which they earn and keep extra profits, but very hard for them to fulfil ones in which they fall short and have to make up losses. This phenomenon of being responsible for profits but not for losses both has a direct impact on the legal effect of contracts, and also affects public revenue. The issue can be resolved in the following two ways: 1) By vigorously improving the management efficiency of state property to prevent losses. Contracting enterprises should put the responsibility system into effect at each level to put managers and all enterprise staff members and workers in the same boat. This will bring the initiative and creativity of all staff members and workers into full play, and make everyone strive to improve production management within enterprises and earn more profits; 2) By establishing full venture guarantees in the contract system to prevent losses by contracting enterprises. That is, contracting enterprises should deduct fixed percentages of staff member and worker bonus funds to set up full venture guarantee funds. This is aimed not only at making more money available to cover losses, but even more importantly at helping to strengthen the sense of staff members and workers that they are the masters of their own affairs, and at linking the interests of all three parties—the state, enterprises, staff members, and workers—into an organic whole.

Urban Economic Strength Increasing

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[By reporter Wu Shishen (0702 1102 3234) and correspondent Zhou Jiang (0719 3068)]

[Text] After 10 years of reform and opening to the outside world, China's urban economic strength has further increased and its proportion in the national economy has been further heightened. The "Almanac of Chinese Urban Statistics," published recently, reveals that the nation's urban GNP for last year (excluding counties directly under the jurisdiction of cities) reached 702.5 billion yuan, one-half of the nation's GNP.

It has been learned that as of the end of last year there were 434 large and small cities in China, representing an increase of 1.2 times the total of 10 years ago; the urban population amounted to 298 million, or 27.2 percent of

the nation's population. Allocation of cities has become more and more rational, with the numbers of cities in east and central China both being higher than that in west China by more than 70 percent. An economic development trend has begun to take shape, wherein economically developed coastal areas have accumulated funds, laid down their foundation, and begun to expand westward. Among the newly established cities, small cities are the ones that develop the fastest, and, with central cities as the nucleus, large, medium, and small cities merge with one another.

As the nation proceeds with reform and opening to the outside world, urban industries are filled with vitality and grow at a sustained and steady pace. Total industrial output value for 1988 amounted to 862.1 billion yuan, raising its percentage in the nation's total to 71.1. Urban industries have become more and more diversified, rational, and are equipped with large amounts of technology and facilities of international advanced standards. This not only generates huge economic results but also helps boost development of rural enterprises in surrounding areas. According to statistics, the realized profit and tax for each one hundred yuan of capital by urban industrial enterprises was about 7 percent higher than the national average, and the annual total of profit and tax generated by industrial enterprises with independent accounting systems reached 179.6 billion yuan, or 78.1 percent of the nation's total.

As regional economic centers, various large and small cities have in recent years noticeably increased their capabilities for economic expansion, and transportation and commodity circulation has thrived as a result. Volumes of passengers and goods transported in cities have grown rapidly year after year, representing two-thirds and two-fifths of the nation's totals, respectively. Commodity circulation in cities has also kept on expanding in terms of scope and volume. Small cities, in particular, have markedly exceeded large and medium cities in the growth of the volume of commodities circulated and goods transported, as they expand contacts with other regions due to the development of the commodity economy. At present, the total volume of retail sales in cities is more than half of the nation's total. Meanwhile, the number of commercial service networks available to every 10,000 residents in cities has increased from 12.6 of 10 years ago to 137 today, providing greater convenience to urban residents and accelerating commodity circulation.

Developing the export-oriented economy and strengthening foreign-exchange earning ability have become new trends for urban economic development in China. The capacity of cities to absorb foreign capital has doubled in recent years, and its proportion in the nation's total approaches 80 percent. Last year alone, cities across the country signed more than 4,000 contracts involving direct investment from foreign businessmen, with a total contractual amount of \$4.1 billion. The 14 open coastal cities and four special economic zones and cities have become the key areas for opening to the outside world

and the hot spots for foreign investment. Currently, there are nearly 2,000 foreign-funded industrial enterprises in cities across the country, with a total output value topping 20 billion yuan. Those enterprises are well operated and managed and help boost cities' foreign-exchange earning ability. Last year, cities exported \$43.5 billion worth of goods, over 90 percent of the nation's total export value.

FINANCE, BANKING

Measures Urged To Stabilize Shanghai Stock Market

90OH0124A *Shanghai WEN HUI BAO* in Chinese
11 Oct 89 p 2

[Text] At one time people were scrambling to buy stocks; but what are stock prices like today?

On 5 October, this reporter visited China's largest stock exchange, the securities business department of the Industrial and Commercial Bank located at 101 Xikang Street, to get a look at the buying and selling market quotations. Although the stock prices of the Yuyuan Emporium Joint Stock Company and the Aishi Electronics Equipment Company were slightly higher than face value, those of the Vacuum Electronics Components Company, the Fei Music Company, the Yanzhong Industrial and Commercial Company, and the Feiyue Joint-Stock Company had all dropped to face value. A statistical comparison of stock prices for 15 September 1989 with those for the same date in 1988 shows that they have fallen by 10 or more percentage points to by as much as 30-40 percentage points.

Shanghai now has 11 enterprises that are engaged in the trial implementation of the stock market system. Seven companies have issued 50 million yuan in shares to the public, and there are more than 50,000 individual stockholders. Why is it that there has been such a large drop in trading prices on the Shanghai stock market? According to the analysis of experts, human factors are to blame. Beginning in April 1989, four securities management organizations, to boost sales, marketed a third issue of 22.1 million yuan in shares of the Shanghai Vacuum Electronics Components Company. Because the time selected for the issue was not good, the Shanghai market for the first time experienced a slump in share sales from which it has never recovered. This issue stipulated that the issue price of each share, which had a face value of 100 yuan, would be 110 yuan and that, to give consideration to the original stockholders, there would be for them an 8 yuan preference for each share purchased, thus making the price for them 102 yuan per share. The Vacuum Company stipulated that, internally, employees of the company's factories who bought shares would receive a preferential discount of 12 yuan per share, with each employee being limited to a 7-share purchase and with the 84-yuan subsidy being paid for from the overall bonus amount. In this way, company employees only needed 90 yuan for each share that they purchased. This

blurred the distinction between distribution according to work and distribution according to stockownership, thus creating an inequality of benefits between employee stockholders and public stockholders. This news had an extremely unfavorable effect on the public, creating strong feelings of dissatisfaction among public stockholders and affecting the normal issuance of the stock. According to statistics, the stock actually sold at this time did not even amount to 6 million yuan, only 27 percent of the total issue. In the end, the entire portion of the remaining more than 16 million yuan of stock was, in accordance with the provisions of the consignment agreement, absorbed by the four securities management organizations. The slump in sales of Vacuum Company stocks affected the other five stocks that were on the market, and stock trading prices took a nosedive.

Second, there have been two points of view all along regarding the trial implementation of the stock market system. One point of view considers it a product of the capitalism's private ownership system that is unsuitable for popularizing business in China. Another agrees with Marx when he said, "Stock companies represent both positive and negative aspects of capitalism's private property," and thus considers that the stock market system an inevitable outcome of the grand birth of socialism. Right now the main concern of citizens is whether the trial implementation of the stock market system will come to a premature end.

Third, what is most important is that the macroeconomic form undergo change. In purchasing stock, a stockholder has three ways to earn a profit. First, each year he can earn higher interest on his dividends and higher extra dividend income than bank interest; second, shares can increase in value; and third, profit can be earned on the trading price of shares. At present, these three means of earning profits are changing. With commodity prices having skyrocketed, the banks promoting 3-year deposits, the uncertainty of share price increases, the drop in share trading prices, the imperceptible erosion of stockholder profits, and the reputation of the stock market system on the decline, stocks are gradually losing their attractiveness to stockholders.

Of course, China's stocks are not the same as stocks in Western countries. Stock trading prices cannot totally represent enterprise operations. For most Shanghai citizens who buy stocks, it is merely a means of saving. Buying and selling of stocks is not done much. In August 1989, there were 410 stock transactions in Shanghai, a total of 2,886 shares with a total monetary value of only 239,600 yuan. This amounted to only 48 percent of the total volume of stocks issued. It is only 3 months from now that stock dividends will be issued. If stockholders sell their stocks below face value, they obviously will suffer losses.

How can stock prices be prevented from dropping? The experts say that the stock system enterprises must be tested in a standardized way to increase our understanding of them. Evaluating enterprise capital at a fixed

date through capital appreciation as reflected in the changes in stock values lets investors see their own profits and gives them the incentive to buy stocks even when dividends are low. We must fix dates for publicizing the various accounting statements and reports of the stock system enterprises to enable stockholders to understand the operating conditions of these companies. Shanghai's financial administration, its banks, and other departments must adopt policies of preferential treatment for stock system enterprises for taxation, financial administration, and in other aspects. We also must broaden the scope of stock sales by allowing certain foundations and compatriots from Hong Kong, Macao, and Taiwan to purchase stocks. Given the present situation, stock companies should appropriately raise dividends in order to stabilize the stock market.

Minister of Finance on State Revenue, Power Centralization

90OH0069A Beijing JINGJI RIBAO in Chinese
14 Oct 89 p 1

[Article by correspondent Zhang Shaochu (1728 1421 2504) and reporter Xie Zhenjiang (6200 6966 3068): "Increase the Two Proportions and Oppose Decentralization - An Interview With Ministry of Finance Spokesman Cao Qinghua"]

[Text] As we engage in improving and rectifying our situation, it is important that we place emphasis on achieving the appropriate degree of centralization, and on gradually increasing the amounts of state financial revenues vis-a-vis national income and of central government financial revenues vis-a-vis state financial revenues. If the central government cannot lay hold of the necessary financial strength, then we cannot ensure that the missions of key construction, rectification, and improvement will be accomplished. We must strengthen the authority of the central government and oppose decentralization. This will help lead to continued, stable, and coordinated development of the national economy.

The following is extracted from Jiang Zemin's "Speech at the Reception Celebrating the 40th Anniversary of the Founding of the People's Republic of China."

"The cool autumn breezes now blow down upon us. In Beijing, the autumn sky is clear and the air is crisp, and it is here that we conducted the following interview with Comrade Cao Qinghua [2347 3237 5478], spokesman of the Ministry of Finance, concerning the remarks made by Jiang Zemin in his speech at the reception celebrating the 40th anniversary of the founding of the People's Republic of China as they pertain to China's financial woes."

[JINGJI RIBAO] What is the meaning of the "two proportions" and why must they be increased?

[CAO QINQHUA] Two important indicators of the financial strength of a nation and its central government are the ratio of state financial revenues to national

income and the ratio of central government revenues to state financial revenues. These will determine and affect the role that the government can play in society, politics, economics, and in life, as well as the scope of its activities. These two proportions must be fixed at a certain level and cannot be raised or lowered whenever we feel like it. Rather, they are determined by the specific functions of the state and the level of economic development.

In recent years, the ratios of state financial revenues to national income, and central government financial revenues to state financial revenues, have both continued to fall off. The former has gone from 37.2 percent in 1978 to 19.2 percent at present. And the latter is currently at only 47.2 percent. Not only are these levels the lowest they have ever been in the 40 years since our nation's founding, but they are also quite low when compared to other nations of the world. This is partly the natural result of our high degree of centralization since the advent of reforms, and the operation of an economic system marked by unitary incomes and expenditures. But the main cause has been that we have not smoothly formed the distribution relationships in our economy. The steady drop in the two proportions has had serious repercussions for our society, our economy, and our lives. Revenues have fallen short of expenditures, we have had successive years of deficits, and key items of construction such as agriculture, energy resources, transportation, and education have not received the necessary infusion of funds. This in turn has kept us from proceeding with effective macroscale adjustment and control so as to ensure stable and coordinated development of the national economy, and it has also prevented the state from performing its function of social administrator. Thus, we must turn this situation around as quickly as possible, concentrate funds to the appropriate degree, and increase both proportions.

[JINGJI RIBAO] Why do we link up decentralization with increasing the two proportions and strengthening the central government's authority?

[Cao Qinghua] Ten years of reforms and construction have enabled us to achieve outstanding results that have captured worldwide attention. However, in recent years we have gone too far in emphasizing power relinquishment and profit retention, with the result that the financial strength of our nation has become much too decentralized and we have ended up with distributions that tend to go to the local governments, departments, and enterprises. Some local governments and units contravene the state plan in their use of funds and give no consideration to the state's production policies. Rather, they have aimed in the direction of benefitting themselves alone with short-term profits, and have deployed excessive funds toward the processing industries, non-productive construction, and consumer-related items. Not only has this sparked enormous growth in fixed asset investment and the consumer fund, but also it has made our industrial mix even more irrational. If we are to change this we must make the appropriate adjustments

to the current situation of interest distribution and concentrate funds so that we can increase the ability of the central government to carry out macroscale adjustment and control over the national economy.

[JINGJI RIBAO] Some people feel that we should solve our financial difficulties by doing such things as cutting back on expenditures, turning key-item construction over to the enterprises and strengthening the role of the banks in economic construction, rather than by increasing the two proportions. What are your thoughts on this?

[Cao Qinhuai] As for cutting back on expenditures, I should point out that some of our current expenditures have in fact grown too quickly and there is some real waste. We must resolve to fix these things. However, from an overall perspective, the majority of our expenditures either should not be cut back or currently cannot be cut back. Take basic construction expenditures as an example. Although they represent a big slice of the pie, these funds are primarily invested in key state construction items and play a major role in ensuring development of the national economy. Not only are we unable to cut back on these expenditures, but they need to be increased. The same holds true for other such items as agricultural support, education, and science and technology expenditures. Thus, the main obstacle to solving our financial woes is that revenues have not grown fast enough and funds have been scattered all around. We must make the appropriate increases in the two proportions, ensure that the necessary funds are there to meet our expenditures, and achieve a basic balance between revenues and expenditures.

I'm afraid that completely turning over key construction investment to the enterprises and making enterprises main economic entities doesn't fit in with the requirements of a planned economy nor with China's conditions. Everyone knows that there are two basic preconditions before enterprises could assume responsibility for key construction investment. First of all, the relative profit from investment in key construction would have to be quite high and this would require a rational and sensitive pricing mechanism. However, the reality in China is that prices are twisted and distorted. And in the areas where we need strengthening like energy resources, transportation, communications, and the raw materials industry, there are only minimal profits to be made. Thus, there is no way we could induce enterprises to invest their own funds in these areas. Also, before enterprises could take on responsibility for investing in key construction, they would have to have a mechanism that would make them act like commodity producers and managers and that could get them to pay attention to the long-term development of the enterprise out of their own self interest. However, right now enterprises in China invariably act for the short-term, and enterprise income goes primarily into the processing industries, nonproductive investment, and consumer-related items.

Thus, state responsibility for key construction investment is both mandated by the planned economy and is the realistic choice to make.

I would say without doubt that strengthened bank regulation over the economy is a correct route. I would point out that regulation by banks or by financial departments both have good and bad points. Each has its own style and peculiarities in playing its role. Neither can act as a substitute for the other. Rather, we must coordinate both of them.

[JINGJI RIBAO]: How are we going to raise the two proportions?

[Cao Qinhuai]: China's national income comes from material production departments, and is mainly created by state-run enterprises and collective enterprises. Thus, to increase the two proportions, we must put in order the economic distribution relationships, and in particular, we must do a good job of arranging the distribution relationships between the state and the enterprise, and the central government and the local government. We might want to consider making appropriate adjustments to the initial distribution policy of our national income as we intensify reforms, and we could gradually improve and perfect contracting methods, adopting the good and discarding the bad, as long as enterprise contracting remains in effect. We must make adjustments to the obviously low ratio of contracting base to progressive increase so as to ensure stable growth of national income. And having done this, we should actively look into after-tax contracting and after-tax loan repayment. At the same time, we must make rational adjustments and cutbacks in the scope and scale of extra-budgetary funds, and regulate rational directions and amounts for extra-budgetary funds. In addition, we must make rational adjustments in the distribution relationships between the central government and the local government.

Inflation Problems Not Attributable to Marxist Economics

*HK3011142589 Beijing JINGJI YANJIU
No 8, 20 Aug 89 pp 52-55*

[Article by Liu Rixin (0491 2480 2450) of the Economic Research Center, the State Planning Commission: "The Present Inflation in China Cannot be Attributed to the Currency Circulation Formula of Marx"]

[Text] In discussing the present price increase and stagflation problems in China, some comrades in the theoretical circles have directly or indirectly related these problems to the currency circulation formula of Karl Marx. It seems that the present inflation is related to this formula. In my opinion, two issues have to be analyzed here. First is whether the formula of Marx is a correct one or not; and the second is in what way should we apply the formula of Marx.

In the related sections in the first chapter of the Volume One of Marx's "Das Kapital," Marx has once again discussed the law of currency circulation. He pointed out that the quantity of money required for circulation is in direct proportion to the aggregate price of commodities and it is also in inverse proportion to the velocity of circulation of money. The aggregate price of commodities is the product of the quantities of each commodity and its price. Marx said: "The aggregate price of commodities/number of times of circulation of money=the quantity of money required for carrying out the function of money. This law is a general applicable one."¹ This law is not Marx's invention but is the result of his summarization of thinking of people in the past. These included the discussions of William Petty and the correct viewpoints occasionally expressed by Adam Smith. The formula of Marx illustrated that commodity circulation is the foundation for currency circulation, and the circulation of money is initiated by the circulation of commodities. This is the fundamental law of currency circulation, and is applicable to any type of commodity economy. It is of course also applicable to a socialist commodity economy.

Western economists after Adam Smith have also affirmed the formula of Marx. For instance, in 1910 the American economist Irving Fisher put forward the basic formula of the Quantity Theory of Money: $MV=PQ$.

In this formula, the symbol M represents the total quantity of money, which is the quantity of money in circulation; the symbol V represents the velocity of circulation of money; the symbol P represents the general price level, which is the average price of all types of commodity; and the symbol Q represents the total number of transactions of commodity and labor service. This formula is not different from the formula of Marx. Contemporary Western economists have worked out the time logarithm differential of this formula. They obtained:

$$d\ln M/dt + d\ln V/dt = d\ln P/dt + d\ln Q/dt$$

that means $LdP/Pdt = LdM/Mdt + LdV/Vdt - LdQ/Qdt$

In words, this means: The rate of increase in commodity price = the rate of growth of the quantity of money + the rate of growth of the velocity of circulation of money - the rate of growth of commodity supply (1).

After shifting the fractions, the above equation can also be expressed in this way:

The rate of increase in commodity price + the rate of growth of commodity supply = the rate of growth of the quantity of money - the rate of growth of the velocity of circulation of money (2).

When the above equation (1) is applied in Western countries where the commodity economy there is highly developed, the velocity of circulation of money there will basically be unchanged in a certain period of time and it can thus be regarded as a constant. At the same time, the

growth of commodity supply can in general be stabilized at a low rate, it can also be regarded as a constant. In this way, the rate of increase of commodity price is equal to the rate of growth of the quantity of money. This is the reason why Western countries in general will have the viewpoint that the rate of increase in commodity price is the basis of the rate of stagflation. It has been concretely calculated that in the 24 years from 1960 to 1984, the annual average rate of increase of commodity price in the United States was 5.45 percent, and the annual average rate of growth of the quantity of money was 5.69 percent. These two rates are almost equal. This fact has proven that the above formula and the explanation of the formula are correct. Most Western economists agreed with the viewpoint that the increase of the quantity of money is the fundamental cause of price increase. This means: The change in the price level is in direct proportion to the change in the quantity of money, and the level of commodity price is determined by the quantity of money; or it can be said that inflation is the cause and price increase is the result, and it is not the other way round.

When this formula is applied in China, the situation will be different from that of Western countries where the commodity economy is highly developed. Since China is a developing socialist country, the growth rate of commodity supply is a variable, not a constant. In the long run, the velocity of currency circulation will change a lot, while under a normal situation and in the short run—i.e., in a year's time—there will not be great changes in the velocity. Therefore, the velocity of currency circulation can be assumed as a constant in the short run. In this way, when the above equation (2) whereby the rate of growth of the quantity of money is equal to the rate of price increase plus the rate of growth of commodity supply is applied in calculating China's data obtained over the recent several years, or from any particular year in the past, it will be impossible to get an identical equation, which can be obtained from calculating the data of the United States according to the formula. This is because China's commodity economy is being developed, and some regular patterns are being formed. Moreover, it is also due to the fact that some statistical data on China are not accurate. Apart from these, the concrete application of index in the above formula should be further studied. For instance:

- 1) The rate of growth of quantity of money. According to the statistics obtained from banks, the quantity of money supply and the volume of cash circulating in market are accurate data. However, it is difficult to calculate the volume of M1. In Western countries where the credit system is developed, M1 in general includes the amount of cash in circulation and the amount of deposits on current accounts. For instance, in the United States, the amount of bank notes issued by the government only contributes to 20 percent of the money supply; and an absolute portion of the money supply is contributed by deposits in banks. Therefore, the increase in the money supply in the United States cannot be simply attributed

to the increase in the amount of bank notes issued by the government. In China, we are still exploring a method for calculating the amount of money in circulation, which includes deposits in banks, and up until now no conclusion has been drawn. In view of the current real economic situation of China, M1 in China should at least include cash and the deposits of enterprise units on current accounts. In this way, the amount of M1 in China will roughly more than 300 percent of the amount of cash in circulation, and the rate of growth of M1 will not be the same of that of the amount of cash in circulation. In general, the rate of growth of M1 will be smaller. Therefore, when fixing money supply (M1), and when it is planned to increase the amount of bank deposits, a smaller increase in cash supply should be planned, and vice versa. Over the recent years, an enthusiastic trend of issuance of debentures and shares (in reality, many shares in fact are debentures) has emerged in society, and an amount of more than 100 billion yuan of debentures and shares has been issued. These debentures and shares can be regarded as means of circulation and means to make payment. Therefore, they should also be counted as part of the money supply. Under the situation where the conditions of money supply are unchanged, when large amount of debentures and shares is issued, cash supply should be correspondingly decreased. This is also a practical factor that should be taken into account in calculating the rate of growth of the quantity of money.

2. The rate of growth of commodity supply. In general this growth rate is substituted by the economic growth rate. This is because commodity supply is determined by commodity production. According to the information of the State Statistics Bureau, the economic growth rate of last year has basically conformed with the reality. The economic growth rate of a planned period is officially fixed by the state plan. For instance, the economic growth rate fixed in the Seventh 5-Year Plan is 7.5 percent. A practical rate can be achieved.

3. The rate of growth of the velocity of circulation of money. It is difficult to obtain specific data of this rate. Marx has said in his theories that it is fundamentally impossible to calculate the velocity of circulation of money. He wrote in his "Critique of Political Economy": "The circulation of currency is an endless and diversified activity...in the small cycle where the departure point of money is connected with the ending point of money, the regression activity, which is a real revolving activity, is shown. However, there are as many departure points of money as there are types of commodity. Due to this point that the number of departure points is unlimited, it is fundamentally impossible to control, measure and calculate such type of circulation. It is also impossible to measure the length of the time required to depart from one departure point and return to the same point." He also said: "It is rare that circulation of money can be shown in such a motion: The circulation starts from the center of a circle and radiates to all the points on the circle. Then it will return back to the center. The

so-called circulation of money, as shown in front of us, is the appearing and disappearing of money on all points, and is the continuous change of position of money.² Contemporary econometrics has achieved rapid progress. However it has not yet achieved any breakthrough in calculating the velocity of circulation of money. Due to this fact, the famous central bank of the Federal Republic of Germany—the Deutsche Bundesbank—has admitted that it is difficult to determine the number of times of the circulation of money.³ In 1981, banks in China have conducted a survey on the situation of circulation of money. At that time commodity production was being developed in rural areas, and the rural areas were in the course of monetarization. It was found out that the velocity of circulation of money at that time was slowed down. Today, the course of commodity monetarization still continues. Will the velocity of circulation of money be slowed down continuously? At present, the financial market is being developed rapidly, various forms of syndicated loans have emerged, large amounts of debentures and shares have been issued, the increase of commodity price has been very large, and the trend of panic purchase has also emerged. Is the velocity of circulation of money being increased? These questions have to be further studied and investigated. At present, only one judgment can be made on the trend of the velocity of circulation of money. However, different people may make different judgments, and perhaps two completely opposite conclusions will be made. Therefore, nobody has been able to provide specific data in this aspect. Thus, it is only a theoretical assumption in regarding the velocity of circulation of money as a constant in the previous paragraphs.

4. The rate of increase in commodity price. The government publishes statistical data every year. However, the broad masses in general found that the index published is too low. Some foreign experts have also estimated that the real commodity price index in China should be higher. The World Bank estimated that the inflation rate in China in 1987 was about 15 to 20 percent, which is about 100 to 200 percent higher than that published by the Chinese government. It has to be pointed out that the method adopted by China in calculating price index was copied from that method adopted by the Soviet Union in calculating the general retail price index. This index is not as good as the consumption price index, which can reflect the overall situation and is used in Western countries. The consumption price index of Western countries can reflect the changes in the price of consumption goods, and can also reflect the changes in the price of labor service (it is generally called service charges in China). In China, the present general retail price index can mainly reflect the changes in the price of consumption goods (In rural areas, the changes in the price of consumption goods, and the changes in the state-listed commercial price of the means of agricultural production are also taken into account). At present, the service charge of various services including haircut, bath, accommodation, cultural entertainment, education, medical service, and various types of transportation is

increasing rapidly. Since the method adopted in calculating the retail price index does not take into account the changes in the price of these services, retail price index thus cannot comprehensively reflect the overall situation. In 1987, the Chairman of the state price commission of the Soviet Union has taken the lead to criticize the method of calculating retail price index, and said that the index is not a comprehensive one and cannot reflect the real situation. It comes the time when the price index system in China should be reformed. Only when there is a comprehensive price index, which can reflect the reality, can scientific calculation be worked out.

In the work of planning, China usually uses the above-mentioned formula to plan money supply and plans money supply in accordance with the formula where the planned growth rate of quantity of money is equal to the planned economic growth rate plus the planned rate of increase of commodity price. Some people in the theoretical circles hold the viewpoint that if banks plan money supply in accordance with this formula, hyperinflation will result. Moreover, they have also stressed that this is an important reason that had led to the runaway of the money supply in China over the past several years. Some people have also severely criticized the viewpoint held by responsible persons of planning departments that the growth rate of money supply should be lower than the sum of the rate of economic growth and the expected rate of price increase, and they consider that the result will be inflation and price increase, and such a viewpoint will also bring an unhealthy cycle to the national economy.

After repeated study and calculations, I think that the question lies on how to apply the formula. Specifically, under the present conditions, the planned growth rate of money supply should not only cover the volume of cash in circulation, the increase in the deposits in banks should also be taken into account. That means the amount of M1 should be calculated. If there are plans to increase the amount of deposits in banks and the amount of debentures, cash supply should be correspondingly reduced. At present, M1 has not been taken into account when calculating the supply of money, and only the volume of cash in circulation is taken into account. Moreover, apart from forcing the money supply to match the planned economic growth rate, an expected rate of price increase, which is an exaggerated higher rate and cannot reflect the real situation, is also taken into account. For example, when we have to formulate a plan for the year 1989 in accordance with the above practice, the economic growth rate of 7.5 percent stipulated in the Seventh 5-Year Plan and an expected rate of price increase, which is assumed to be 13 percent (we are not going to discuss whether this rate is a practical one or not) and is obviously lower than the rate of last year (the retail price index of 1988 was 18.5 percent), will be taken into account. Moreover, M1 will not be taken into account in calculating the money supply, while the volume of cash in circulation will be taken into account.

In this way, on the basis of the real amount of 213.4 billion yuan of cash in circulation, cash supply should be increased by 20.5 percent (7.5 percent + 13 percent). That means cash supply should be increased by some 43.7 billion yuans. This will of course intensify the problem of inflation, and this is an inflationary plan. The famous Taiwan academician Chiang Sho-Chieh [5592 4311 2638] pointed out after his investigation and study that among the countries in the world that have already had a developed economy, none of them has been able to achieve an annual growth rate of money supply of more than 10 percent. Therefore, the focus of the question is on the exaggerated rate of 13 percent of price increase. According to the criteria of some Chinese economists, this rate is already a hyperinflated rate. If this rate is added to the planned economic growth rate, and the sum is then taken as the basis for planning money supply, the hyperinflation problem will of course be intensified. According to the opinions of most American economists, this expected rate of price increase of 13 percent has already exceeded the inflation criterion (the situation where price increases continuously at a rate of 2.5 percent is inflation) by 400 percent. In addition to this, a planned economic growth rate is also taken into consideration when money supply is being planned. This is undoubtedly a way to create manmade inflation. We have to admit that the planning of money supply in such a way is a mistake in our macroeconomic management work. Therefore, in my opinion, in planning the increase in money supply (M1) in the current planned year, apart from taking into consideration the needs of normal economic growth, the lagging effects of the several tens of billion yuans of money supplied annually over the past several years in a continuous way on commodity price should also be taken into consideration, and the planned rate of price increase should be determined on the basis of a rate lower than the inflation rate, and finally the factors leading to the changes in the velocity of circulation of money should also be taken into consideration. Under the present situation, where the problem of inflation is being intensified, a tendency where the velocity of circulation of money is being increased has emerged. The higher the velocity of circulation of money, the smaller the quantity of money required in the course of circulation will be. Only in this way where the overall situation is taken into consideration and money supply is planned in an appropriate way can the problem of inflation be alleviated step by step. The Deutsche Bundesbank has played an important role in promoting steady growth of West Germany's economy. When it fixes the quota of money supply, it takes into consideration these factors: (1) the anticipated growth rate of production capacity, and the changes in the operational rate of equipment (i.e. the factor of economic growth rate); (2) the unavoidable rate of price increase; and (3) the changes in the anticipated velocity of circulation of money, and so on.⁴ From these we can conclude that we should not rashly negate the scientific currency circulation formula of Marx, and cannot

attribute the present inflation to this formula. We should proceed from the reality to reasonably apply this formula.

Footnotes:

1. "Das Kapital," Vol 1, p 139
2. "The Collected Works of Marx and Engel," Vol 13, p 92
3. See the "Nerve Center of West Germany's Economy—A Visit to the Deutsche Bundesbank," published in JINGJI SHIBAO on 22 July 1988.
4. "The Role of the Financial System in West Germany," published in RENMIN RIBAO on 29 March 1989.

INDUSTRY

Shanghai's Industrial Restructuring

90OH0156A Shanghai WEN HUI BAO in Chinese
22 Oct 89 p 1

[Article by Yang Xuefu (2799 1331 1381): "Shanghai Is Paying Close Attention To Restructuring Its Industry To Give It More Stamina; It Is Developing Key Products and Projects with Limited Funds; The Shanghai Municipal Government Has Approved and Issued Restructuring Plans To Go into Effect in 1989 and 1990, Which Give Priority To Developing 220 Products and Planning 200 Construction Projects, Restricting or Eliminating 100 Products, and Closing and Upgrading a Number of Enterprises"]

[Text] Shanghai is now "giving priority to developing and eliminating a number of products, planning a number of construction projects, and closing and upgrading a number of enterprises." It is optimizing its fund investment orientation, restructuring its industry, developing key products and projects with limited funds, and constantly giving its industry more stamina. These plans were recently approved, officially issued, and put into effect by the Shanghai municipal government.

The aims of Shanghai's industrial restructuring in 1989 and 1990 are to earn more foreign exchange from exports, increase market supplies and public revenue, and tap new resources and key production factors to attain maximum output efficiency, while giving consideration to long-range growth stamina. The restructuring will preserve and encourage some products and construction projects while cutting back and restricting others, emphasize key products and projects throughout Shanghai, and give rational guidance to the circulation of limited power, raw materials, and funds. Its major plans are as follows:

1) Giving priority to developing 220 products as follows: (A) Priority will be given to developing 122 consumer goods, the aims being to increase the variety and improve the quality of consumer goods, develop top-grade

famous-brand products, expand the number of products that are hot-selling, in short supply, in great demand, and essential to the people's livelihood, and increase and expand the number of export products; (B) Priority will be given to developing 40 packing industry products to speed up the merging of machine building and electronics into an organic whole, forming a number of dominant packing industries for things, such as complete sets of equipment, basic parts and components, and automatic control equipment, and focusing on developing import substitutes and expanding exports; (C) Priority will be given to developing 47 raw materials industry products, the keys being to restructure the product mix, improve quality, suitably expand the output of raw materials to meet Shanghai's urgent needs, serve the needs of Shanghai's consumer goods and packing industry production, and make more electronics components in China; (D) Priority will be given to developing 11 new products for developing industries, such as certain brands for export of microcomputers, printers, automatic control systems equipment, small- and medium-sized computers, external equipment, silicon materials, fiber-optic cables, integrated circuits, and cephalosporin;

2) Restricting or eliminating 100 products as follows: (A) The major consumer goods that will be restricted or eliminated are unmarketable products, low-grade ones that consume too much energy or materials, and those that can be shipped in from other places to meet Shanghai's needs; (B) The major packing industry products that will be restricted or eliminated are those with poor technical performance or quality, that consume too much energy or materials, and for which market supply exceeds demand; (C) The major raw materials industry products that will be restricted or eliminated are those for which market supply exceeds demand, that can be supplied by other provinces or municipalities, and common ones for which new products use substitutes;

3) Giving priority to planning 200 major construction projects: These priority construction projects are focused on products which priority must be given to developing. Relevant departments must give priority to supporting them in areas, such as power, raw materials, funds, and construction forces, so that they can be put into production and achieve their full production efficiency as quickly as possible;

4) Closing and upgrading a number of industrial enterprises: These are mostly enterprises whose products are not suited to Shanghai's development, that cause serious pollution from the "three wastes" (waste gas, waste water, and industrial residue), that cannot pay their debts and are close to bankruptcy, that have long-term operational losses or earn tiny profits, whose products are unmarketable, or that need to be restructured based on the needs to optimize and reorganize them to economical production sizes. A very small minority of them will be simply closed down. The bureaus in charge of enterprises will have the centralized responsibility for

reassigning and resettling staff members and workers from enterprises that close down for upgrading.

Communications Ministry Seeks To Improve Transport Market

90OH0115A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 26 Oct 89 p 1

[Article by reporter Yang Guangzeng (2799 1684 1073): "Reinforcement Has Achieved Positive Results; Now Is the Time To Focus on Long-term Order and Stability: The Ministry of Communications Is Stepping Up Effort to Rectify Order in the Transport Market—Complete Fact Finding and Other Preliminary Tasks This Year; Restore Order in the Transport Market Next Year; Install an Effective Control and Regulatory System by 1991, and Then Establish Even Better Market Order"]

[Text] The Ministry of Communications has been fairly successful so far in putting the nation's transport market in order, and "to work the iron while it is hot"—at this opportune time, the Ministry is planning its next steps and will strive to establish normal order in the nation's transport market within 3 years, or longer if necessary.

In recent years, as China's communications and transportation industries develop and grow, many worrisome problems have also emerged in the market. Studies show that, at present, about 20 percent of China's land transport operators are not certified, and in many localities, public vehicles are licensed as private cars and private cars are licensed as public vehicles; it is chaotic. With respect to water transport, up to the end of the second quarter, around 40 percent of the individually (integrated household) owned ships and boats have not applied for recertification as required. Because the system is flawed and management is lax, bribery, corruption, profiteering through resale of goods, tax fraud and tax evasion, embezzlement, and unreasonable investigations and fines are widespread in local transport markets everywhere.

In February of this year, the Ministry of Communications issued a "Resolution on Rectification and Improvement of the Land and Water Transport Markets." The localities heeded that decision immediately and quickly went to work. Jiangsu Province's Communications Department targeted four key areas for rectification and improvement: Examination and verification of certifications, regulation and control of transport capacity, layout of stations and stops, and ticket management. Wuhan's Changjiang Shipping Company focused on the reorganization of various paid passenger services on passenger ships, and so far it has been fairly successful in curbing the "recklessness in operation, linkage, and fee collection." Jilin Province's Communications Department wants to shape its own conduct before shaping others: Early this year, it announced the "Rules For an Honest Government" with respect to the highway system, transportation management, and fee collection verification. It hopes to promote all-around

rectification and improvement by ensuring honesty with the transportation management department. It is because the communications departments at all levels work hard on improving management that guaranteed the success of the transport undertakings in the first 3 quarters of this year.

In order to augment what have already been achieved and make the rectification process thorough, the Ministry of Communications sponsored a "National Working Conference on Rectification and Improvement of the Water and Land Transport Markets" in Suzhou in mid-October and invited the heads of communications departments and bureaus from the provinces, municipalities, and autonomous prefectures to attend and help plan the next steps of the rectification task. At the meeting, Minister Qian Yongchang [6929 3057 2490] said that publicity and fact-finding and other ground work should be completed within this year, and then we should proceed to verify the qualifications and rectify the business conducts of those in the transport business. When those tasks are completed, we should then straighten out the chaotic transport market and make transport services clearly better by next year. In 1991, better market order should be established, and predicated upon better guidance in planning, we should give play to the positive effects of market regulations and take the first steps toward establishing an effective regulatory, control, and supervisory system and create a business environment that promotes fair competition.

Minister Qian Yongchang said, for the next step, the focal point of rectification and improvement of the passenger transport market is to rectify transport order, improve service, and guarantee the safety of the passengers. As for the cargo transport market, the focus will be on resolving the problems of loss of control over the supply of goods, poor organization, poor transport efficiency and performance, and illegal transactions. As for transport-related services, such as repair and maintenance of trucks and boats and container loading and unloading, better management is needed for the industry as a whole. We must crack down on the crooks and the bullies in the market. We must improve the existing transport structure and capacity and the layout of transport facilities by having a general plan and exercising overall control and regulation of the transport market.

Changes in Upgrading of Sichuan's Light Industry Technology

90OH0156B Chengdu SICHUAN RIBAO in Chinese 28 Oct 89 p 2

[Article by Ma Liguang (7456 0441 0342) and Ma Chuanjun (7456 1557 6511): "Thoughts On Upgrading Sichuan's Light Industry Technology; How To Change The Situation of 'Too Many Hens That Lay No Eggs'"]

[Text] The 2.4 billion yuan that Sichuan Province invested to upgrade the technology of its state-owned light industrial enterprises in the Sixth 5-Year Plan, was

approximately two-thirds of what it invested in fixed assets in the same period, or about the same proportion as in all of China. Although investing in upgrading technology promoted certain improvements in the industrial structure and product mix of Sichuan's light industry, it certainly did not achieve ideal efficiency, and Sichuan's investment-recovery rate was 47 percent lower than that throughout China. An independent accounting found that the realized output value per 100 yuan original value of fixed assets in Sichuan's light industrial enterprises was 29.6 percent lower, and the realized profits and taxes were 39.9 percent lower in 1987 than 1981. This situation can be summed up figuratively as being caused by "too many hens that lay no eggs."

I. "The Best Steel Is Being Used on the Back of the Knife Blade"

The major problems that exist in the upgrading of Sichuan's light industry technology are that the production scope of products that were originally in short supply has been expanded too little, new technology has been underutilized, and new products and industries have not been developed. This investment orientation is certainly like "using the best steel on the back of the knife blade."

For instance, although Sichuan's food industry has put into operation a large number of beverage canning production lines, most of the products produced are low-grade beverages and as much as 20 percent of the raw materials are wasted. Although Sichuan's leather industry has imported 24 tanning, shoe-making, and leather part production lines in recent years, since most of them were used to expand the production of low-grade products, it has still been unable to change the situation of poor product quality, few varieties, and outmoded styles.

A problem of unrealistic importing exists in Sichuan's investment to upgrade its light industry technology. Although Sichuan's clothing industry imported over 30 Western-style clothing production lines during the "Western-style clothing rage" in 1984, since many of them have not been put into production and supplies of Western-style clothing exceed demand, some enterprises are heavily in debt. From 1983 to 1985, although the Nanchong region imported three fruit juice concentrate production lines that could process 10,000 tons of fresh fruit a year and one that was able to process 5,000 tons a year, due to a shortage of fruit juice raw materials, they processed a total of only about 1,000 tons of oranges in 1986, far less than their designed capabilities.

II. Two "Mountainous Problems" Are Blocking the Way

An analysis of the investment climate shows that severe shortages of technicians and money are the two major problems in upgrading Sichuan's light industry technology. They are like two "big mountains" that are blocking the way for technological upgrading and

keeping imported technology and equipment from being digested and blazing new trails.

Specialized technicians constituted only 1.39 percent of all staff members and workers in light industry by the end of the Sixth 5-Year Plan in Sichuan, while this figure was 1.53 percent throughout China. Only 0.8 percent of the staff members and workers in Sichuan's secondary trades are scientists or technicians, and one-third of the enterprises in Sichuan's ceramics industry have no scientists or technicians at all. Over 60 percent of the small- and medium-sized enterprises in light industry throughout Sichuan have no scientists or technicians higher than engineers, which makes them very unsuited to the needs of technological upgrading. Although one paper mill has set up a new crepe and toilet paper production line, its products are inferior and unmarketable because it has no technicians to run it. And although other enterprises have imported advanced equipment, they have also been very slow in putting them into normal production due to the lack of technical competence of their staff members and workers.

A shortage of money for enterprises to develop new technologies and products is another serious and long-standing problem in Sichuan's light industry growth. A sample survey found that not only do Sichuan's industrial enterprises have 30-40 percent less money to develop new technology and products than the national average, but that light industry enterprises also have less money to use in this area than the provincial average. Sichuan's light industrial enterprises keep 18.8 percent less profits per worker than the average for industrial enterprises throughout Sichuan, and many of them keep less than 300 yuan in profits per worker a year and have very little left after deducting bonuses and worker and public welfare funds. Since Sichuan's secondary enterprises, and in particular, those that earn less than one thousand yuan a year in profits, have trouble even staying in business, where could they get the money to develop new technology and products?

These existing problems for upgrading technology in Sichuan's investment orientation and climate have left the products produced by many of Sichuan's light industrial enterprises with a consistently poor capacity to capture markets for decades. Traditional and low- and medium-grade products constituted about 70 percent of those produced by Sichuan's primary light industrial enterprises in the Sixth 5-Year Plan. Statistics show that Sichuan shipped in and bought 16.8 billion yuan worth of commodities from other provinces, and that one-half of her consumer goods markets for daily necessities were captured by commodities from other provinces or abroad, in 1988. In particular, most of Sichuan's high-grade dress materials, clothing, household electrical appliances, machinery for everyday use, toys, food, plastic goods, modern packing materials, and high-grade industrial chemicals are "imported" from coastal zones and abroad.

III. Efforts Must Be Concentrated On Improving Efficiency

The key to invigorating Sichuan's light industry will be improving the efficiency of investments to upgrade technology. Sichuan's light industrial enterprises must change their old way of giving more emphasis to quantity, hardware, and importing than to efficiency, software, and digesting, combine technology importing with digesting, assimilating, and blazing new trails, and concentrate their efforts on improving their investment efficiency. Traditional light industries, such as food, leather, papermaking, daily use industrial chemical, and daily use machinery industries, should give priority to raising in-depth processing and product quality and lowering consumption, while actively developing new industries.

Since technological advances ultimately hinge on raising the quality of workers and training people with professional skills, all types of professional training must be vigorously developed, and technological training of staff members and workers centered on on-the-job training must be carried out well. Sichuan's existing college and university professors and facilities should be used to expand or improve light industry specialties, and enterprises should invest in directed training to increase enrollments. It is suggested that 1 percent of light industry's investment in fixed assets be collected as education funds and used for developing specialized training for light industry. Cities and prefectures with developed light industry could set up their own vocational or technical high schools.

Sichuan should vigorously encourage technological innovation, popularize advanced S&T achievements, and improve the technological development capacity of enterprises, in particular, of key large and medium-sized enterprises. Assessment of new technology and product development targets must become the major goal of contract management and factory director tenure assessment. It is suggested that more than 1 percent of the sales income of light industrial enterprises be collected as trial-manufacture costs for developing new products and technologies, and that enterprises be urged to constantly realign their product mixes with state-set industrial policies.

SMALL-SCALE ENTERPRISES

Suzhou Readjusts Marketing Strategy

90OH0121A Beijing JINRONG SHIBAO in Chinese
31 Oct 89 p 1

[Article by Tan Guangyun (6151 0342 0061): "Suzhou Township and Town Enterprises Strive to Extricate Themselves From a Predicament; Readjust Product Mix, Expand Rural Retail Sales, Enter International Markets"]

[Text] Faced with a shortage of capital, energy, and raw and processed materials, numerous township and town enterprises in Suzhou have readjusted their product mix, changed their marketing strategy, and adapted themselves to changing conditions in an effort to extricate themselves from a predicament. Output value of township and town enterprises throughout the city passed the 20 billion yuan mark during the period January through September, retail sales earnings exceeding 15.1 billion yuan in a respective 19 and 23 percent increase over the same period in 1988.

Reportedly a large number of township and town enterprises fought their way out of difficulties, primarily through resort to the following measures:

Genuine readjustment of product mix. During 1989, township and town enterprises in Suzhou devoted more attention on markets, studying and analyzing market conditions. The local equipment was suited to the production of silk products, but since it was difficult to find raw materials to make real silk in markets, and since artificial fiber fabrics did not sell well, some county, township, and town enterprises expanded the production of imitation silk products. Other county, township and town enterprises also took the initiative in getting rid of products whose manufacture took large amounts of energy, seriously polluted, and that sold sluggishly, concentrating their energies on the development of new products, new varieties, the development of "hot selling" products, and improving product quality and the number of grades.

Change in retail sales strategy. Noting a change in the market, and that famous-make premium products from large- and medium-size enterprises in cities were recapturing city sales, Suzhou's township and town enterprises not only consolidated their existing partnerships to open up product retail sales channels, but also held all sorts of goods ordering fairs and exhibitions to promote the sale of their products. The township and town enterprises that produced mostly medium- and low-quality goods shifted their marketing emphasis toward the vast hinterland and rural villages, setting up "windows" in large- and medium-size cities there, and in border regions. Some township and town enterprises dumped goods at low prices, taking thin profits. This change in marketing strategy produced results very rapidly. A certain building enamel ware plant took the initiative in pricing its products 5 percent or more lower than the domestic market price of the same kind of products, very quickly opening a market for its products. Comparison of the first 9 months of 1989 with the same period in 1988 showed a 53 percent increase in output for a profit of close to 1.4 million yuan.

Entry into international markets. In 1989, Suzhou township and town enterprises further worked their way out of their sole dependence on domestic markets, striving to open international markets. From January through September, they shipped a cumulative more than 1.7 billion yuan of foreign trade goods, 54 percent more than during

the same period in 1988. Some county's foreign trade purchases increased manifold, accounting for 14 percent of total sales of all products. New advances were also made in border trade. Two counties (or cities) entered into direct border trade talks with the USSR via Heilongjiang and Xinjiang, each of them already making more than 1 million yuan worth of deliveries. A shift toward external orientation enabled a turn for the better among a large number of Suzhou's township and town enterprises. Most the the enterprises there whose production and sales are substantially in balance are enterprises that produce directly or indirectly for export.

FOREIGN TRADE, INVESTMENT

Impact of Debt Servicing, Ways To Improve Debt Management

90OH0017A *Beijing JINGJI YU GUANLI YANJIU [RESEARCH ON ECONOMICS AND MANAGEMENT]* in Chinese
No 4, 8 Aug 89 pp 15-18, 39

[Article by Chen Mingxing (7115 494 2502): "Impact of Foreign Debt Servicing on China's Economy and Ways To Improve Debt Management"]

[Text] Foreign borrowing has two effects on economic development. The first is exerted through use of the borrowed funds, which increases a country's inputs of

capital goods and supply of consumer products and thus acts as a great spur to economic development. The second comes through repayment of the funds, which reduces the amount of money at the country's disposal, thereby diminishing its ability to expand reproduction and thus serving to constrain economic development.

Experience in other countries shows that, by better controlling the direction in which borrowed funds are employed and by strengthening control over repayment levels, one can ensure that foreign borrowing will play a big role in accelerating economic development. This article will discuss the effect of loan repayment on China's economic development and how we can improve our foreign debt management.

I. The Effect of Foreign Debt Servicing on China's Economic Development

The main agencies borrowing overseas are the central government, departments that are very financially dependent on the central government, and local governments. Foreign debt servicing reduces funds, especially foreign exchange funds, available to the Chinese government and thus indirectly affects China's economy by directly inducing policy readjustment.

In 1980, China began repaying loans obtained since 1979. The following table lists the principal and interest paid from 1980 to 1987 (including funds borrowed and serviced funds both by the center and local departments).

Foreign Debt Repayment, 1980-1987

Year	1980	1981	1982	1983	1984	1985	1986	1987
Amount Paid (Billion U.S. Dollars)	1.942	4.458	2.785	1.78	1.151	1.894	2.681	4.603

From 1980 to 1987, China paid out an average of \$2.662 billion each year to service its debt, equal to 10.2 percent of its average annual export volume, and there were two peaks and one trough in its payments: A peak of \$4.458 billion in 1981, a trough of \$1.151 billion in 1984, and another peak of \$4.603 billion in 1987.

Payments were consistently high, fluctuated considerably, and greatly impacted China's economic development in three major ways.

1. The Change in the Composition of Government Spending and the Lack of Sufficient Funds for Investment in Productive Operations

From 1980 to 1987, government revenues rose by an average of 11.6 percent each year, while debt repayment rose by 13.1 percent and, most importantly, soared at an average annual rate of 58.7 percent since 1984, a much higher rate than the 23.4 percent posted for government revenues since 1984.

Under the current, peculiar historical conditions, China's fiscal situation is very tight, a fact that is manifested in the large amounts of funds required for enterprise technological transformation, industrial restructuring, welfare, education, and other areas, much

of the spending is required to resolve historical problems. Thus, with debt repayment rising and spending difficulty, the government, to ensure that long-term social development is not undermined, is attempting to cut administrative outlays, to bring ballooning fixed capital investment under control, and to do other things in order to maintain necessary outlays for other undertakings. In January 1980, the State Council issued the "Circular on Reducing Nonproductive Investment and Opposing Waste," calling on all localities and departments to reduce administrative expenses and planning pilot tests of "budgetary responsibility contracting" in administrative units and public institutions. The council also promulgated the "Regulations Governing Strengthening of Management through State Planning of Capital Construction and Controlling the Level of Such Construction in March 1981, Supplementary Regulations Concerning Strict Control of Fixed Capital Investment in December 1983, and the Circular on Reducing Administrative Expenses in February 1985," the latter of which urged central and local departments to cut administrative expenses by 10 percent in the coming year. Yet administrative costs rose at a rapid annual rate of 16.6 percent, and fixed capital investment climbed at a rate of 17.1 percent from 1980 to 1987. Things were so bad that

in the second half of 1988 the State Council sent teams to each province, municipality, and autonomous region to carry out inspections using administrative measures; cut local construction of "office buildings, large halls, and guesthouses"; and conscientiously brought irrational growth in investment under control. Besides defense spending, it was mainly working capital and enterprise technological transformation that were actually affected by this retrenchment. State outlays for working capital, which stood at 3.671 billion yuan, or 3.0 percent of all government spending in 1980, and declined to 946 million yuan, or only 0.4 percent of all spending, in 1987. Even when one takes into account the transformation of the government's role, working capital rose by only 12.3 percent between 1980 and 1987, which is much lower than the 14.2 percent annual growth registered in national income during that period. Government spending on enterprise technological transformation, although rising from 5.312 billion yuan in 1986 to 6.996 billion yuan in 1987, declined in terms of share of GNP plummeted to 18.4 percent, representing a decline of 11.7 billion yuan from the previous year. As debt repayment dipped, productive accumulation soared. After repayment hit bottom in 1984, productive accumulation managed to show weak growth in 1985 but total government outlays from 6.6 to 5.0 percent.

Further analysis reveals that growth accumulation for productive purposes is greatly influenced by debt repayment volume. When the first repayment peak occurred in 1981, growth in productive accumulation began to plummet again in 1986. Government effort to control nonproductive accumulation in 1987 brought improvement in productive accumulation. In that year, total accumulation reached 330.4 billion yuan, a rise of 13 percent over the previous year, of which productive accumulation climbed 17.4 percent, while nonproductive accumulation rose by only 6.4 percent.

(2) Debt Servicing Drives Up Prices

Debt servicing has increased China's inflation rate. Studies conducted by Chinese experts show that many factors have contributed to the high inflation since 1980 and that the major ones are structural and demand-pull pressures, yet the effect of debt servicing cannot be overlooked.

The steady improvement in per capita income and disparity of growth in income have enabled many Chinese families to advance beyond living standards of bare adequacy and to begin seeking greater material comfort and variety and to serve as models for the consumption patterns of other families. This development conflicts with China's effort to expand exports and foreign exchange earnings so as to pay off its big foreign debt and its effort to ensure stable growth in imports and exacerbates the structural contradiction between supply and demand. From 1980 to 1987, China's exports grew at an annual average rate of 27.2 percent (computed in *renminbi*), greatly increasing the cost of foreign exchange earning and continuously diverting large quantities of

scarce or marketable commodities abroad, thus driving up the domestic prices of these goods. As consumers shifted their attention to "inferior" substitutes, the prices of these goods skyrocketed, too, igniting a chain reaction of price rises and accelerating domestic inflation.

Our big foreign debt has increased pressure on the government's budget. The government has attempted to cut spending and to increase domestic borrowing so as to mitigate the contradiction between revenues and outlays and avert budget deficits. From 1983 to 1987, domestic public debt and treasury bond sales totaled 31.39 billion yuan, yet from 1980 to 1987 China's budget showed a deficit of 39.96 billion yuan, equal to 73.9 percent (as computed in *renminbi*) of the total outlay to service its foreign debt during the same period. This huge deficit increased aggregate social demand and fueled demand-pull inflation. Further analysis shows that the budget deficit is greatly affected by debt servicing in two major ways: (1) From 1980 to 1987, China paid out an annual average of 3.88 billion yuan to service its foreign debt, four times the annual average since 1959. During the same period, the budget deficit averaged 4.995 billion yuan, 1.8 times the average since 1950. (2) The trough in repayment occurred between 1983 and 1985, and in the last year of that trough, 1985, the budget showed its only surplus (2.16 billion yuan) for the 1980-1987 period. With the rapid rise in debt servicing after 1986, budget deficits swelled. Thus debt servicing has exerted a big expansionary effect on budget deficits.

Analysis of China's inflation from 1981 to 1987 clearly reveals that inflation was low between 1981 and 1984, averaging only 2.2 percent a year. (This figure, like the following, is derived from data supplied by the State Statistical Administration.) The reason for this low rate is that the state strengthened control over prices and vigorously reduced circulatory links while effecting fiscal and monetary retrenchment. From 1985 to 1987, inflation rose more rapidly, averaging 7.4 percent a year. This rise resulted from the fact that, with mushrooming consumption funds and debt servicing, the state's macroscopic retrenchment policy proved difficult to maintain for long. In 1984, bank credit controls began to slacken, and in 1986 the budget deficit swelled. These factors greatly accelerated inflation.

(3) Significant Deterioration in China's International Balance of Payments

Since 1979, China's trade with other countries has grown sharply. From 1980 to 1986, exports and imports grew by an annual average of 14 and 9.2 percent, respectively (computed in U.S. dollars, as are the following figures), greatly exceeding the world averages of 1.2 and 1.0 percent during the same period. As trade volume surged, significant change also occurred in the composition of imports and exports. From 1981 to 1987, primary product exports rose by only 29.1 percent, whereas manufacture exports leaped 122.9 percent, and primary

product imports declined in absolute terms, whereas manufacture imports, especially capital goods, expanded greatly.

Yet even with a basically good situation in the development of two-way trade, China's international balance of payments deteriorated significantly.

Between 1980 and 1987, China posted trade deficits in 5 years, a balance in one, and surplus in only two and ran up a combined deficit of \$33.19 billion and surpluses of only \$3.88 billion.

In terms of two-way trade, since 1980 exports have fluctuated greatly, registering virtually no growth in 1982 and 1983 (computed in U.S. dollars, as are the following figures) and a mere 4.6 percent growth in 1985. This shows that the natural growth potential for Chinese exports is very limited. Imports, on the other hand, consistently boomed throughout the period. Although the state strove to control growth therein and managed to increase China's foreign exchange reserves between 1980 and 1983, policy relaxation in 1984-1985 led to a cumulative trade deficit of \$16.17 billion. And while the state held import growth to zero and greatly expanded exports in 1986 and 1987, the trade deficit still reached \$15.74 billion during these 2 years.

To cover the trade deficit and maintain needed reserves of foreign exchange, the state has had to step up foreign borrowing, thereby rendering future debt servicing more difficult. In 1987, China began to borrow to repay old debt, and while such borrowing totaled only \$640 million, this development is a dangerous omen.

Statistics from relevant departments show that China will face a repayment hump from 1990 to 1995, when debt servicing undoubtedly will aggravate China's budgetary and foreign exchange burdens. The grim questions confronting us are how to ensure that foreign debt servicing does not impact our economic development even more, how to avoid a crisis in debt repayment, and how to prevent loan use results from sinking below repayment costs. These questions impel us to reevaluate and restructure our foreign debt management policy.

II. Suggestions on Improving Foreign Debt Management

China's debt level is low in absolute but quite high in relative terms. For example, its debt repayment rate was 11.7 percent in 1987, close to its limit for that rate, 15 percent. Moreover, the surge in foreign borrowing in the past several years is bound to accelerate repayment in the next several years. Thus to avert the destructive effects of a debt crisis on the stable development of China's economy, we must draw on the experience and lessons of developing countries' debt crises and promptly devise a policy for managing China's foreign debt. This is very necessary for the long-term, stable and healthy growth of the Chinese economy.

In view of China's foreign debt situation, the effects of the debt on Chinese economic development, and the experience and lessons of other developing countries, I believe that China's foreign debt management policy should incorporate the following elements.

A. Establishing an Authoritative National Debt Management Commission To Manage, Coordinate, and Control the Level and Mix of China's Foreign Debt

Due to price and exchange rate distortion and to imperfect profit and debt repayment management systems, developing countries can get carried away with foreign borrowing and thus have a crying need for government control and coordination.

The lack of an authoritative national agency to manage foreign debt has allowed China's foreign debt to burgeon in recent years, and the trend threatens to accelerate. Thus prompt establishment of such an agency to control foreign borrowing and rationally restructure China's foreign debt has become an urgent task for our government.

B. Holding China's Foreign Debt to an Appropriate Level

The appropriate level for a country's foreign debt is conditioned by many factors and determined by that country's overall economic might. Economic development, industrial and systemic restructuring, international market change, and the like all affect a country's economic might and thus its ability to absorb and utilize foreign capital.

International practice posits two debt safety limits: a repayment rate of 20 percent or less and a limit on outstanding debt such that that debt does not exceed export earnings in any given year. An analysis of 45 developing countries conducted by the World Bank revealed that 15 of 17 countries whose repayment rates exceeded 20 percent encountered debt crises and that 25 of 36 countries whose outstanding debt exceeded export earnings in any one year experienced difficulty in repaying debt that year.

In view of the facts that China has little potential for expanding exports, little flexibility in curtailing imports, and limited access to concessional loans, Chinese experts believe that its ability to sustain debt is lower than the average for developing countries generally and thus that its repayment rate should be held to 15 percent or less.

C. Establishing a Rational Debt Mix

Rational readjustment of debt mix can reduce the overall costs of raising capital and enable a country to sustain greater debt.

China's debt structure is irrational in two major respects. The first is the excessive share of short-term debt. In 1985, short-term liability accounted for 40.5 percent of China's total outstanding debt, which is much higher than the internationally accepted appropriate level of 25

percent. Second, commercial loans comprise an excessively large share of China's medium- and long-term loans—66.7 percent between 1979 and 1985, a level that is higher than the 52 percent average for debtor countries generally.

To rationalize China's debt portfolio, we must actively seek bilateral government-to-government loans and loans from international financial organizations, strengthen control of commercial borrowing, and strive to balance loan maturity distribution so as to avoid repayment humps.

D. Strengthening Control of Foreign Debt Risk

Foreign debt risk refers primarily to interest and exchange rate risk. Risk is impossible to avoid in foreign borrowing; the key is to minimize it. To achieve this objective, we must enhance control of the mix of loans denominated in different currencies and the share of loans obtained through the marketplace.

(1) Readjust China's Foreign-Currency Loan Mix and Reduce Exchange Rate Risk

There are two basic principles involved in readjusting China's mix of foreign-currency loans. The first is to broaden the mix and to ensure an appropriate ratio among loans denominated in hard currencies. This requires that we improve analysis and forecasting of changes and trends on international financial markets. The second is that the foreign-currency loan mix be fairly consistent with the currency composition of our export earnings.

China's foreign-currency loan mix clearly is irrational; there is too much yen-denominated debt. Relevant departments estimate that the large appreciation of the Japanese yen in 1986 caused China a foreign exchange loss of more than \$3 billion. Thus China should reduce yen-denominated debt and increase the share denominated in other currencies so as to rationalize its debt portfolio.

(2) Actively Broaden Avenues for Raising Capital and Diversify Loan Sourcing

Diversifying loan sourcing includes diversifying the channels and means of raising capital. This would help attract idle funds from a broader range of sources, reduce borrowing costs, and avoid excessive risk from foreign exchange and interest rate fluctuation.

Approximately one-half of China's external loans has come from Japan (including medium- and long-term concessional and commercial loans). This state of affairs will cannot but affect China's credit rating in Japan, increase the costs of our borrowing, and confront us with tremendous monetary risk. Thus we must strive to expand borrowing in London, the FRG, and Hong Kong and to enter the New York financial market so as to diversify our borrowing and reduce the costs and risks involved therein.

E. Strengthening Control Over Borrowing Windows

There are too many windows for foreign borrowing, which fact makes us more liable to lose control over debt volume and increases the difficulty of units with low credit ratings in obtaining better borrowing terms. Developing countries' debt crises teach us that lax control over foreign borrowing and excessive borrowing windows are important contributors to the loss of control over debt. Although experts from the World Bank have advised China to limit its borrowing windows to 10, she has more than 100 such windows, and the number continues to grow. Thus an important task confronting foreign debt management is ferreting out and reducing such windows and gathering up control over capital raising.

F. Restructuring the Economy and Stabilizing Economic Growth

To ensure long-term, stable economic development, we must bolster the "seismic resistance" of the economy to foreign debt servicing and stabilize economic growth.

(1) Restructure Imports, Do a Better Job of Guiding Borrowed Capital Toward Specific Industries and Regions, and Ensure Continued Growth in Exports

Stable growth in exports will greatly improve China's ability to sustain debt, and thus the basic principle of importing should be to increase imports of manufactures and reduce those of primary products, to increase imports of capital products and reduce those of consumer goods, to increase productive and reduce nonproductive investment, and to increase imports of crucial technology and reduce those of noncrucial technology. Therefore, the government should revise tariff schedules, guide imports, encourage exports, alleviate the pressure that debt exerts on the economy, and support expansion of foreign borrowing with an abundant supply of foreign exchange.

(2) Perfect the Investment Mechanism

Fixed capital investment is greatly affected by debt servicing and has an important bearing on improvement of industrial labor productivity. Thus perfecting China's investment mechanism and reducing the effects of debt on investment are crucial to ensuring the long-term, stable development of our economy. To achieve this goal, the government must ensure that budgetary investment levels are maintained, that bank loans grow, and that enterprise earnings are not infringed; and, while doing these things, rely on short term curtailment of consumption and long-term economic growth to resolve any temporary repayment difficulties that might arise.

Impact of USSR Trade Policy on Sino-Soviet Trade
900H0071A Beijing SHIJIE JINGJI /WORLD ECONOMY in Chinese No 8, 10 Aug 89 pp 73-78

[Article by Wu Guangwen (0702 1639 2429), Heihe Teachers Training School, Heilongjiang Province: "Changes in the USSR's Trade Policy and Prospects For Sino-Soviet Trade"]

[Text] Soviet Union trade policy has undergone marked changes with the deepening of reform in the wake of the 27th CPSU Party Congress. These changes are closely related to the trend in world economic development, which is characterized by the increasing internationalization of economic life. World trade exports as a percentage of world gross national product, as well as each country's foreign trade as a percentage of total world foreign trade can serve as an indicator of the degree of internationalization of economic life. From the early 1950's until the 1980's, the Soviet Union's percentage of total world foreign trade hovered at between 2.6 and 4.2 percent (See Table 1). By 1988, it still did not exceed 5 percent. During the 1980's when world trade exports as a percentage of world gross national product reached 21.8 percent or more, the Soviet Union's percentage was still at a very low level despite increases in recent years. In 1988, it was only 7.7 percent. This was extremely unworthy of the USSR's international position. The disparity between the USSR and the United States in the field of trade has been very great since the 1950's (See Table 2), and the same is true for other developed countries.

Table 1. Soviet Foreign Trade as a Percentage of Total World Trade

Year	Total World Foreign Trade (\$100 Million)	Total Soviet Foreign Trade (\$100 Million)	Percentage (%)
1950	1257	33	2.6
1955	1921	65	3.4
1960	2636	112	4.2
1965	3839	162	4.2
1970	6416	245	3.8
1975	17518	703	4.0
1980	40452	1450	3.6
1981	39756	1524	3.8

Source of Data: "70 Years of USSR National Economic Development," Machine Industry Press, 1988, p 658

Table 2. Comparison of USSR and United States Trade Figures (Continued)

Year	USSR (\$100 Million)	United States (\$100 Million)	USSR as a Percentage of the United States (%)
1970	245.3	823.5	29.8
1975	702.9	2091.4	33.6
1980	1450.0	4723.3	30.7
1981	1524.2	5002.3	30.5

Source of Data: "70 Years of USSR National Economic Development," Machine Industry Press, 1988, p 670

Faced with a trend toward increasing internationalization of economic life, as well as a very great disparity with the developed nations of the world, particularly in the continued shortages of consumer goods within the country, the USSR hastened the pace of foreign trade system reforms, proposing the idea of an opening to the outside world. It concluded that "In today's world, no country can suppose that it can be isolated from other countries in economic matters."¹ With regard to the relationship between reform and opening to the outside world, the USSR believed that "Reform of economic management will boost our returns from foreign economic relations. More importantly, it will open broad avenues whereby foreign markets would have greater influence on the work of all departments and enterprises, and on the quality of their products and their scientific and technical progress."² Guided by a psychology of opening to the outside world, the USSR's foreign trade policy underwent marked changes.

1. Gradual Shift in Foreign Trade Management Authority From Centralism to Pluralism, Emphasizing That the Overall Goal of Foreign Trade Is Improvement in "National Economic Efficiency."

In the course of reforming its foreign trade system, the USSR empowered some ministry and commission companies, and numerous enterprises to engage in foreign trade. These companies and enterprises may themselves draw up plans including the earning of foreign exchange, and be directly responsible to the State Planning Commission. Foreign exchange earnings became an important indication in judging enterprises' and companies' business activity, and the percentage of foreign exchange companies and enterprises are allowed to retain also markedly increased. Goals in reform of the Soviet foreign trade system were: To change from centralized administration to plural administration, and gradually to make the companies and enterprises that serve as basic economic units the main elements in foreign trade relations. Currently enterprises and companies account for somewhat more than 22 billion rubles of foreign trade, 20 percent of the national foreign trade total. This shows that 80 percent of foreign trade operating authority remains concentrated in the State Ministry of Economics and Trade. In particular, fuel, raw materials, cereal grains, and some mechanical equipment remain under centralized Ministry of Economics and Trade

Table 2. Comparison of USSR and United States Trade Figures

Year	USSR (\$100 Million)	United States (\$100 Million)	USSR as a Percentage of the United States (%)
1950	32.5	190.0	17.1
1955	64.9	269.4	24.1
1960	111.9	354.8	31.5
1965	162.3	485.4	33.4

administration.³ Clearly, the transformation of the Soviet foreign trade system from centralism to pluralism will require an orderly step-by-step process. It should be made clear that in the process of transforming the Soviet foreign trade system to pluralism, there has been no release of requisite centralized leadership authority. The emphasis of reform has been on an expansion of enterprises' decision making authority for foreign trade dealings rather than on complete release of leadership authority over foreign trade dealings.

In the process of transforming foreign trade operating authority, the USSR has also given attention to greater coordination of the relationship of all parties. In early 1988, the USSR established a Ministry of Foreign Economic Relations responsible for carrying out policy guidance and providing information and consulting services to all parties. In the legislation field, the Council of Ministers of the USSR passed, one after another, a series of decisions for improving foreign economic relations, for bettering economic and technical cooperation, and for the operation within the Soviet Union of joint venture enterprises with countries of all kinds. In the area of linking industry and trade, companies and enterprises authorized to conduct foreign trade gradually changed the past disjunction between domestic production and international market demand, and the separation of production from foreign trade.

Up until the time of the 27th CPSU Party Congress, the guiding thought for the USSR's foreign trade policy was "evening out" surpluses and shortages, satisfying demand, and insuring balanced development of the economy." Following the 27th CPSU Party Congress, the overall goal of the USSR's foreign trade policy changed to "increasing national economic efficiency."⁴ This major change resulted from a leap in Soviet theoreticians' understanding of numerous problems. (1) First was a more profound understanding of the principle of comparative returns. With development of the new technological revolution, and the appearance of new products and new technologies with each passing day, no country can produce all products meeting advanced world standards at a minimum expenditure. Only by relying on the principle of comparative cost benefits, making full use of the international division of labor, and concentrating on the development of production of those sectors from which the country enjoys relatively high economic returns can the national economic structure gradually tend toward optimization. (2) Second was a new understanding of the prerequisites for formulating national economic plans. Prior to the 27th CPSU Party Congress, the USSR always proceeded from traditional ideas, deciding national economic plans primarily on the basis of tasks and requirements for economic development, then deciding an external economic development strategy on the basis of the national economic plan and political tasks. By so doing, it placed economic relations in a secondary subordinate position. Following the 27th CPSU Party Congress, Gorbachev looked at the role of external economic relations with a new eye, emphasizing

the need to employ an international division of labor, and improvement in economic returns as major premises when formulating national economic plans. (3) Third was a new understanding of the sources of national income. Major changes have occurred in Soviet national income statistics in recent years, by which is meant the addition of a category titled "International Trade Deficit," within national income. This shows that from guiding thought to practice, the USSR has clearly recognized that foreign trade can increase national income. If the socially required labor time to produce a given commodity in a country is lower than the world market socially required labor time, the difference between the former and the latter is considered to be the added value from the sale of that commodity in world markets, enabling a corresponding increase in national income. This changed and heightened understanding not only enabled the USSR to propose clear-cut goals, but also to formulate specific policies able to insure attainment of overall goals.

2. Proposal To Establish "Free Economic Zones," and Vigorous Operation of Joint Venture Enterprises To Enable Foreign Trade To Expand From Just the Commodity Circulation Field to the Production Field.

Soviet scholars maintain that the establishment of free economic zones has become an international trend. One might also say that it is an objective process in the forward development of the world economy. Socialist countries should take an active part in this process. This is because in today's world of political and economic interdependence and rapid development of the scientific and technical revolution, no country can develop all by itself. In recent years, the Soviet Union's volume of foreign trade with the west has steadily declined. This situation shows that the USSR must establish such special zones in a quest for new routes for foreign economic trade. One might say that free economic zones and joint venture enterprises are two aspects of a single form. Only by establishing the former will it be possible to eliminate the irrational limitations on the latter to advance the development of trade.

On the basis of international experience, Soviet scholars maintain that free economic zones should be set up in areas in which they can readily attract foreign trade partners. The most suitable places in the USSR are coastal areas and border regions such as along the Baltic Sea Coast and in the Far East. A report from the Soviet newspaper, ECONOMICHESKAYA GAZETA, said that in order to do more in the economic opening to the outside world, and in solving the pressing problems of a shortage of foreign exchange funds and a low speed of increase in civilian consumer goods, once the USSR established a seaside triangular zone in the Far East (consisting of Nakhodka, Ha Sang [0761 2718], and Bogelaqinei [3134 0766 2139 1142 0355], the USSR planned to set up the largest special economic zone in the country—the Odessa Free Economic Zone. Located on the shores of the Black Sea in the western part of the USSR, Odessa is richly endowed in terms of natural

geography and transportation conditions, and it maintains wide-ranging international contacts. During the last century, a free trade zone appeared in Odessa, playing an active role in the development of surrounding cities. Odessa also has developed industry, a well-developed scientific research base, and potential for the development of tourism, all of which provide conditions for the establishment of a free economic zone there.

Naturally, any new idea always encounters opposition from old ideas. Some people in the USSR regard the building of free economic zones as a departure from the principles of socialism; however, most people approve active entry into international markets, and the absorption of foreign capital and technology for the country's economic construction so long as there is no abandonment of socialist principles.

The operation on Soviet territory of joint venture enterprises having foreign partners has become a new phenomenon since reform. Socialist countries, developing countries, and capitalist country may all operate joint venture enterprises on Soviet territory. The difference among them is that partners in cooperation from socialist countries are not limited in the amount of funds that the law permits them to invest in joint venture enterprises, while in joint ventures with partners from developed capitalist countries and developing countries, the Soviet partner's legal share of capital may be no less than 51 percent. Profits are distributed in proportion to the legal amount of funds invested. Final settlement of accounts with socialist country joint venture partners is done through transfer of ruble accounts between countries. Final settlement with joint venture partners from developed capitalist countries and developing countries is done by offsetting foreign exchange receipts and expenditures, i.e., foreign exchange earnings from export products are used to pay profits to these partners. Alternatively, the equivalent amount of profits from foreign partner commodity sales within the Soviet Union may be used to effect balance.

Currently, there are 200 joint venture enterprises in the USSR having a total foreign capitalization of 1 billion rubles.⁵ Those concerned forecast that with the deepening of reform, the number of joint venture enterprises in the USSR will gradually increase, and the scope will gradually broaden as well. By the end of 1990, total foreign investment will increase to between 10 and 12 billion rubles. These forecasts have policy support. Since January 1987, following the USSR Council of Ministers' passage of "Decisions on the Operation of Joint Venture Enterprises Within the USSR and Regulations Pertaining to Them," These decisions have been revised and amended several times. For example, in September 1987, the CPSU Central Committee and the Soviet Council of Ministers passed "Decisions on Supplementary Measures For Improving Foreign Economic Activities Under New Operating Conditions," which not only simplified procedures for setting up joint venture enterprises, providing all Soviet ministries, departments in charge, and the Council of Ministers of all federated

republics the authority to make their own decisions about joint venture enterprise arrangements, but also revised the content of the original "Decisions." These revisions provided that enterprises be exempt from the payment of taxes on profits for 2 years from the time that they began to earn a profit, rather than from the time they began operations. They also permitted joint venture enterprises to set the kind of currency used in settling accounts for the sale of products and the purchase of commodities. (Regulations formerly provided for final settlements only in rubles). In order to satisfy the demands of western companies, the USSR also expressed a desire to sign government-to-government accords with countries concerned on the mutual protection of investments, and so on. In December 1988, the Council of Ministers of the USSR passed "Decisions on Further Development of State-Owned Enterprises, Cooperative Enterprises, and Other Publicly Owned Enterprises and Joint Companies, and on the Organization of External Economic Activities" to give further impetus to the development of joint venture enterprises.

3. Deciding Main Subjects For Trade Contacts Simultaneous With the Development of Omnidirectional, Multilevel Economic Diplomacy

In order to take part extensively in international economic competition and exchanges, the USSR actively developed omnidirectional economic diplomacy with the United States, the Council for Mutual Economic Assistance, the European Economic Community, and the Asia and Pacific Region. In order to obtain from the west the technology, capital, equipment and management experience lacking inside the country, the USSR readjusted its foreign economic policy. In addition to continuing to give attention to the maintenance and development of economic and trade relations with western European countries, it particularly emphasized the development of trade relations with the United States. For several decades following World War II, the USSR and the United States were mutual adversaries, their tense political relations seriously hurting bilateral economic and trade contacts. In order to prevent the Soviet Union from catching up with the United States in terms of overall national strength, all previous American governments restricted the export to the USSR of high technology products and advanced equipment. The two countries' trade figures remained at a relatively low level for a long time. In 1987, trade between the USSR and the United States amounted to 1.2 billion rubles. This was 4.2 percent of the trade between the USSR and western countries, 1.5 percent of the USSR's total foreign trade, and 0.4 percent of America's total foreign trade. In 1988, trade between the USSR and the United States amounted to approximately \$2 billion. With the entry into a new period in relations between the USSR and the United States, characterized primarily by the testing of overall national strength and dialogue rather than primarily by the arms race and confrontation, an easing occurred in world affairs. This created the relaxed and favorable international climate necessary for the USSR's development of omnidirectional economic diplomacy.

In April 1988, the Soviet-American Economic and Trade Commission held its eleventh meeting in Moscow. During this period, the United States Secretary of Commerce headed talks with Soviet trade personages by more than 500 entrepreneurs from 320 companies, and signed several agreements on the establishment of joint venture enterprises. Under aegis of the American Occidental Petroleum Company, Japanese and Italian companies took part in the signing of an agreement with the Soviet Union for setting up a large petrochemical partnership company for an investment of \$6 billion. Americans concerned predict that "with a fundamental improvement in trade conditions, within 3 to 7 years the volume of trade between the United States and the USSR will increase from the present \$2 billion to between \$10 and \$12 billion per year."

In the course of its omnidirectional economic diplomacy, the USSR has focused primarily on readjustment of Council For Mutual Economic Assistance internal relationships, and on economic cooperation with the Asia and Pacific region. Ever since the 1950's, the Soviet Union has made economic relations with socialist countries the mainstay of its foreign economic and trade relations. Soviet trade with socialist countries held a position of decisive importance in the Soviet Union's total trade figures (See Table 3). The volume of its trade with Council for Mutual Economic Assistance countries accounted for an overwhelming majority of its trade with socialist countries (See Table 4). This method whereby socialist countries, particularly members of the Council for Mutual Economic Assistance Council, were main trading partners obviated, to a certain extent, the bad effects of economic fluctuations in the capitalist world, assuring stable development of the Soviet Union's national economy. However, it also contained some problems, a rather prominent one of which was that mostly the USSR exported low price fuels and raw materials to Council for Mutual Economic Assistance countries, and imported fairly poor quality electromechanical products and spare parts from them. In this regard, Soviet officials say that henceforth economic relations with Council for Mutual Economic Assistance countries will be readjusted, trade being conducted on the basis of equality and mutual benefit.

The USSR maintains a positive attitude toward economic and trade relations with the Asia and Pacific region because this is in keeping with the Soviet Union's policy for greater development of its backward Siberian and far eastern regions. Development of these regions has been in difficulty for a long time, various economic norms not fulfilling plan. In July 1988, when Gorbachev inspected the region, he noted that the USSR has always emphasized the development of the European region. This was wrong, and it has impaired both development of the domestic economy, and economic and trade relations with the Asia and Pacific region. In this connection, the USSR abolished some prohibitions blocking economic development of the region, adopting beneficial

measures and preferential policies to promote development and to improve external economic and trade contacts. The "Far East Comprehensive Development Plan" formulated in 1987, which will run until 2000, will require an investment of 200 billion rubles.⁶ However, there is as yet no assurance that this sum of money can be raised. In order to solve the problems of funds as well as technology and workforces, the USSR is prepared to open up Vladivostok gradually, entering into international cooperation with the countries of East Asia to speed up development of this region. It is estimated that the building of a free economic zone at Nakhodka near Vladivostok will take \$4 million. The Soviet Commercial Affairs Society [shangshihui 0794 0057 2585] has suggested that South Korea act as a partner in cooperation, providing 50 percent of the investment.

Table 3. Socialist Countries' Share of the USSR's Foreign Trade (%)

Year	Socialist Countries	Developed Capitalist Countries	Developing Countries
1950	81.1	15.0	3.9
1955	79.3	15.6	5.2
1960	73.2	19.0	7.8
1965	68.8	19.2	12.0
1970	65.2	21.3	13.5
1975	56.3	31.1	12.4
1980	53.7	33.6	12.7
1985	61.1	26.7	12.2

Source of Data: "USSR Foreign Trade Statistics Yearbook"

Table 4. Soviet Trade With Socialist Countries (100 Million Rubles)

Year	Trade With Socialist Countries	Including Trade With Council for Mutual Economic Assistance Countries
1950	23.72	16.78
1955	46.31	31.10
1960	73.71	54.43
1965	100.49	84.73
1970	144.09	122.84
1975	285.52	262.48
1980	505.52	457.77
1985	864.93	776.92

Source of Data: "Soviet Foreign Trade Statistics Yearbook"

The USSR's emphasis on development of the Siberian and Far East regions is necessary, and it is also possible. Subjectively, the steady deepening of reform and the readjustment of various policies helps development of the region. Objectively, this is a vast region with rich resources, especially energy reserves, which account for one-third the world's total, including two-thirds of the

world's coal, one third of its natural gas, and about one-fourth of its petroleum. Development potential is extraordinarily great. This region currently provides the entire USSR with two-thirds of its petroleum and natural gas, and two-fifths of its coal and timber. Accelerated development of the region will greatly promote development of the entire national economy of the USSR.

Looked at in terms of current trends, the USSR is also devoting special attention to the development of economic and trade relations in the Pacific region with Japan, South Korea, and particularly China. Trade between the USSR and Japan, as well as South Korea, holds very great attraction. The USSR needs Japan and South Korea to provide capital and technology. Japan and South Korea have also expressed great interest in the USSR's abundant natural resources and vast markets. However, an unresolved territorial dispute between Japan and the USSR may pose very great obstacles to trade contacts and headway between the two countries. Given these circumstances, the development of trade relations between the USSR and South Korea seems extremely important. It is common knowledge that South Korea has never been recognized by the USSR since the end of World War II, both sides seemingly being estranged. With the deepening of reform in the USSR, both sides have had some contacts. Gorbachev said explicitly that the backdrop of a general turn for the better in the situation on the Korean peninsula can open possibilities for building economic contacts between the USSR and South Korea. However, economic and trade relations between the USSR and South Korea will, in the final analysis, be restrained by political factors; consequently, no very great progress can be made in the near future.

In the Pacific region, trade between the USSR and China is of longstanding and well established. Its potential is very great (See Table 5). These figures show that during the mid 1950's, Soviet trade with China accounted for 21.4 percent of the USSR's total foreign trade. Subsequently, a great decline occurred but a slight rally occurred during the 1980's. Nevertheless, it never exceeded double digits. After joint efforts on the part of both China and the USSR, a new decision was made to carry out a policy of widespread cooperation in the fields of trade, economics, and science and technology, and a series of relevant accords were signed to promote the development of Sino-Soviet trade; however, it has yet to reach the level of the all-time high period.

In retrospect, Sino-Soviet trade has followed a tortuous path of "development, stagnation, and redevelopment," from which it is possible to see that a vast potential exists. As Gorbachev said at the 27th CPSU Party Congress, "Looking ahead to the future, the potential for cooperation between China and the USSR is enormous, because such cooperation in the interest of both countries."⁷ We realize that since the 27th CPSU Party Congress, Sino-Soviet economic and trade relations have steadily advanced, the annual amount of trade has increased consistently, and the areas of cooperation have

developed from the traditional and unitary government agreed-upon trade for a gradual expansion in the direction of multilevel, multiform, multiple channel trade. Nevertheless, traditional Sino-Soviet government agreed-upon trade remains the main form of trade at the present time. In the mix of mutually exchanged commodities, both sides' imports and exports of raw and processed materials and primary products account for approximately 70 percent, manufactured articles accounting for approximately 30 percent. In the future, both China and the USSR will have to cooperate more in the production field. Contracts have been signed for 11 of the 24 projects (including 33 sub-projects) that it has been agreed that the USSR is to build or renovate in China at a total cost of 690 million Swiss francs. This marks a fine beginning for economic and technical cooperation between China and the USSR in the production field. Great development should also occur in Sino-Soviet joint venture enterprises. At the present time, both countries are conducting discussions on the building of a joint venture thermos bottle plant in the USSR, a joint venture paper pulp plant in China, and joint venture restaurants in both Beijing and Moscow. However, this is just a beginning.

Table 5. USSR Trade With China (10,000 Rubles)

Year	Trade With China	As a Percentage of Total Soviet Foreign Trade (%)
1950	51890	17.7
1955	125270	21.4
1960	149370	14.9
1965	37550	2.6
1970	4190	0.2
1975	20090	0.4
1980	31660	0.4

Source of Data: "USSR Foreign Trade Statistics Yearbook"

Since the 1982 formal exchange of documents between the ministries of foreign affairs of China and the Soviet Union on the revival of border trade, as of the end of 1987 border trade companies in Heilongjiang, Jilin, Nei Mongol and Xinjiang provinces had revived and developed border trade with the USSR's Pan-USSR Far East Foreign Trade Company and the Pan-USSR Eastern Foreign Trade Company. Agreements signed between the foregoing four Chinese provinces and the Soviet Union in 1988 had a value of 900 million Swiss francs. Border trade shows good prospects. Barter trade between the Chinese border cities and towns of Heihe, Tongjiang, Suifenhe and Manzhouli, and the USSR border cities and towns of Blagoveschensk, Lower Leninskaya [0007 0441 1337 2448 7059 5102], Geluodiekewo [2706 5012 6613 4430 3087], and Houbeijiaersike [0683 6296 0502 1422 2448 0344] [all phonetic] have been unprecedentedly lively. Both countries have also begun to cooperate in multiple ways, including the processing of materials

brought in from outside the country, joint ventures, contracting of projects, and cooperation on labor matters.

Heihe Prefecture enjoys a superior geographic location and natural conditions for border trade. Heihe Prefecture is located in the northern part of Heilongjiang Province. It is separated from Amur Oblast in the USSR by a river, which forms a 355 kilometer long border. The prefecture contains three cities and four counties, and has a total area of 68,726 square kilometers, and a population of 1.52 million. It has abundant natural resources whose development potential is very great. With the steady development of China's opening to the outside world, and the easing of relations between China and the USSR, border trade between Heihe Prefecture and Amur Oblast has developed rapidly, increasing from a single trade partner in Azhou in 1988 to 27, the import and export trade totaling 130 million Swiss francs. In absolute terms, it is 1.8 times again as high as the total amount of trade for 10 years following founding of the Chinese People's Republic. In September 1988, following ratification by both the Chinese and Soviet governments, Heihe City and Blagoveschensk on the opposite shore formally began "day trips." The system works as follows: "Each side collects payments for the trip in its own country, no foreign exchange being used, and both sides provide reciprocal services, accounts being settled at the end of each year." Each side provides tourists from the other side with a certain amount of its own currency for the purchase of tax-free souvenirs, "and "each side provides ships or vehicles to cross the border. Each side also provides tourists with transportation, tour guides, interpreters, emergency medical care, admission tickets to tourist attractions, rest areas, and both lunch and dinner." Not only do the local border area residents enjoy these trips, but they also attract numerous tourists from elsewhere, so much so that compatriots from Hong Kong and Macao also want to take cross-border tours. Tourism departments on both sides are studying this question. Development of cross-border economic and trade relations similar to Heihe Prefecture's will generate a positive effect on Sino-Soviet economic and trade cooperation as a whole.

Reforms are deepening in both China and the USSR; the goals of reform are identical in both countries; and policies for opening to the outside world are the same, meaning that the development of economic and trade relations between China and the USSR will enter a new and more flourishing stage. In particular, Gorbachev's visit to China, and the normalization of relations between the two countries will open wider vistas for economic and trade cooperation between the two countries.

Footnotes:

1. Gorbachev's report to the 6th Plenary Session of the CPSU Central Committee
2. Ibid

3. RENMIN RIBAO, International Edition, 7 Jan 1989
4. Zhang Jing [1728 2533]: "External Economic Development Strategy Since the 27th CPSU Party Congress," SHIJIE JINGJI, Issue 6, 1988.
5. (Soviet) Henglixi Barinuofu: "Reasons For Not Very High Economic Returns From Joint Venture Enterprises," USSR "New Age" Magazine, Issue 9, 1989
6. ASAHI SHIMBUN, 19 Jan 1989
7. KEIZAI SHIMBUN, 5 May 1989

Strategy for Foreign Borrowing Discussed

900H0085A Xining QINGHAI JINGJI RIBAO in Chinese No 28, 31 Aug; 4, 7 Sep 89

[Article by Zhou Xiaohan (0719 2556 1383): "The Appropriate Level of and a Strategy for Developing China's Foreign Borrowing"]

[28 Aug 89 p 2]

[Text] Drawing on capital from international financial markets to finance and accelerate economic development is an important component of China's strategy for development, assuming that using foreign debt to finance development is a common practice, and essentially as a catch-up strategy, among developing countries. By employing such a strategy, developing countries not only can exchange, through foreign trade, resources they possess for the advanced technology and equipment and resources they need for development, but can do so in advance by making use of international capital markets. Thus, this strategy has greatly expanded developing countries' use of modern foreign resources, accelerated the countries' development, and reduced the gap between them and developed countries.

Since opening up to the outside world, China has boldly employed many channels and ways to borrow abroad and aggressively utilized foreign capital. This approach has contributed greatly to economic development.

Nevertheless, the strategy of financing development with debt is complicated, and it is by no means true that every country employing the strategy has succeeded. International experience instructs us that, in adopting such a strategy, we must properly manage our debt, lest we sink into a morass. Debt management must resolve two major questions. The first is the appropriate level for foreign debt, in other words, the upper limit of a nation's ability to sustain foreign debt, which limit is determined by the nation's ability to service its debt. The country must be able effectively to control the level of foreign debt. The second question involves the economic results of foreign borrowing and is key to a nation's ability to avert debt risk.

I. The Appropriate Level for China's Foreign Debt

After the 3d Plenary Session of the 11th CPC Central Committee, China began to shift from eschewal of borrowing to a strategy of assuming debt in order to finance development. China began borrowing abroad in 1979 and issuing bonds on international markets in 1982. By 1988, the total outstanding foreign debt had reached \$40 billion, which makes China a fairly large debtor nation.

The growth in China's foreign debt can roughly be divided into two stages; 1979-1983 marked the initial stage. During this stage, China explored channels through which to raise and use foreign capital. China's debt, therefore, grew slowly during this stage, by an average of \$700 million per year. On the other hand, 1984-1988 was a stage of rapid growth, when debt rose an average of \$7.3 billion a year, 10 times the pace of the previous stage, for a growth rate of 63 percent. Such rapid growth in debt is rare in world experience. It is very urgent that we confront this growth, ascertain the appropriate level for our debt, and thus keep our outstanding debt at an appropriate level.

A country's capacity to sustain foreign debt is determined by the level of development she has achieved. As economic might grows, capacity to sustain debt also varies; this capacity, in fact, is relative. The indicators generally employed internationally to measure countries' capacity to sustain debt include: 1) the economy-debt ratio, which is the ratio between outstanding debt and GNP; 2) the export-debt ratio, which is the ratio between outstanding debt and export volume; 3) the debt repayment ratio, which is the ratio between export volume and the amount of principal and interest paid to service foreign debt.

(1) The GNP-debt ratio reflects a country's potential ability to sustain debt. Countries with large GNPs enjoy greater potential to sustain debt. Nevertheless, a large GNP does not necessarily imply a large export capability, and foreign debt repayment depends on exporting. Thus the GNP-debt ratio merely indicates potential, not actual, repayment capability.

(2) The export-debt ratio is a more accurate indicator of a country's actual debt burden and directly links debt with exports and foreign exchange earnings. Countries with greater export volumes have greater actual ability to sustain debt. General international practice specifies that the export-debt ratio not exceed 100 percent. Yet this standard cannot be applied mechanically but must be adapted to actual conditions in China. What we must take into account here is the composition of our exports. For example, if primary products dominate exports, the export-debt ratio limit should be reduced commensurately. For primary product prices are declining in relative terms on international markets, and these goods are weak foreign exchange earners. Furthermore, exporting primary products reduces availability of raw materials needed for the development of domestic industry and

can hinder economic development. Thus such exports often tend to be subject to great limitation. Agricultural products, in particular, are affected by natural factors, exports thereof are uncertain; thus, exporting of such goods can cause the export-repayment ratio to fluctuate. Although the share of primary products in China's export mix is declining, these products still account for 40-45 percent of our total exports, a high ratio, a fact that engenders more instability in our exporting and foreign exchange earning. Thus it would seem that we should set the upper limit for our export-debt ratio at 90 percent.

Let us use this standard to examine our export-debt burden over the past several years.

During the years 1985, 1986, 1987, and 1988, our outstanding foreign debt rose by 119, 35, 41, and 32 percent respectively; our exports grew by 5, 13, 28, and 12 percent respectively; and our export-debt ratio climbed from 58 to 69, to 76, and thence to 90. (Note: The export growth rates are derived from customs statistics.)

Clearly, the last several years have seen great growth in China's foreign debt. As the figures above show, outstanding debt has grown significantly faster than have exports, so our export-debt ratio has soared year after year, reaching the upper limit of 90 percent in 1988. Thus we believe that the level of debt in 1988 is the highest China's economy can sustain at this time and that further rise in the export-debt ratio will threaten China's ability to service its debt. We must take special care to control growth in our outstanding debt and to hold that growth below that for exports. If exports expand by 1-10 percent a year, then it is appropriate to hold the debt growth to about 4-5 percent.

[31 Aug 89 p 2]

[Text] (3) The debt repayment ratio is a more direct and accurate indicator of real repayment burden. Debt servicing is unevenly distributed, so the actual burden varies over time. Internationally, the warning line for this indicator generally is 20 percent but can vary greatly due to differing national conditions. For example, South Korea's repayment ratio has long approximated or exceeded 20 percent, but China has never encountered difficulty in servicing its debt; whereas low-income countries like Trinidad-Tobago and Zaire have experienced crisis with ratios of less than 7 percent and of 13 percent, respectively; and when Brazil and Mexico fell into their severe crises, their ratios averaged approximately 18 percent. Moreover, the same country can experience marked change in the standard for its repayment ratio at different stages of development. In setting the standard (namely, the upper limit) for China's repayment ratio, we must take into account three important factors:

The first factor is the current account of our balance of payments. Since 1985, China has run a foreign trade deficit for several straight years and, when nontrade items are factored in, has had large current account

deficits in all years but 1987, when there was a small surplus. The current account situation weakens China's ability to service its debt. Thus the upper limit for the repayment ratio should be set below 20 percent. In particular, we must take into account the facts that our exports have slowed this year, that our nontrade income will drop sharply, and that our current account may worsen, thus weakening our our ability to service our debt.

Second is import rigidity. If a country can reduce its imports significantly without unduly affecting the national economy, it will be better able to service the foreign debt thus sustain a higher repayment rate without crisis. But if a country's imports are rigid, in other words, hard to reduce, the repayment capability will be weak even with a low repayment ratio. In terms of composition, China's imports became significantly more rigid between 1985 and 1988, a trend that is reflected primarily in the declining share of luxury goods in our total imports and the growing share of basic raw materials employed in industrial and agricultural production. Imports of motor vehicles dropped from 150,000 units in 1985 to 90,000 in 1987, and within these figures, buses and cars fell from 48,000 to 30,000. During the same period, color television imports declined from 1.39 to 1.07 million sets. The steady decline in imports of less rigid goods such as motor vehicles, buses, cars, color televisions, and refrigerators, stems from policy readjustments, such as the imposition of strict limits on car imports, and from the rise of domestic industry, which has replaced some imports. Imports of more rigid products, such as grain, agricultural means of production, and raw materials and advanced equipment needed in heavy and chemical industry, have climbed steadily in the past several years. For example, from 1985 to 1987, grain imports rose from 7.73 to 16.28 million tons, insecticide imports increased from 74.95 to 100.62 million tons, and chemical fertilizer imports climbed from 5.1 million to 1.09 million tons [as published]. Curtailment of these imports would seriously affect our economic growth and might undermine our ability to service our debt.

There is yet another situation that rigidifies China's imports. Over the last several years, China has pursued unbalanced development and focused investment in sectors producing final products for the processing of intermediate goods [*] and imported many advanced assembly lines. While this strategy has enabled China to upgrade many of its durable consumer goods, China must import many key components, a fact that is especially true for the exports she produces. Such imports are also difficult to cut. If we were to produce these components domestically, we would have to turn to even more importing and bring in much advanced technology and production equipment. In sum, China is undergoing a shift from backward to advanced technology, urgently needs to obtain large amounts of advanced resources from abroad, and has very little room to cut imports. This state of affairs will seriously weaken our actual repayment capability and thus must carefully be taken into account.

Third is the availability of funding (including loans and investment). This represents yet another important factor determining a country's ability to service its foreign debt. Even with a high repayment ratio, a country, if foreign lenders or investors are confident with that country, it may be able to avoid debt crisis by borrowing continuously, replacing old debt with new. Such overall repayment capability would remain strong. Conversely, countries lacking access to new funding might have weak overall repayment capability, even with low repayment rates. After effecting economic restructuring and opening to the outside world, China's actual international reputation gradually rose, and foreign loaners and investors liked the prospects for economic development and were willing to provide China with new funding, which developments improved her repayment capability. Nevertheless, the domestic political turmoil of 1989 has undermined foreign loaners' and investors' confidence, thereby drying up sources of international funding and making it extremely difficult to borrow to repay our old debt. We must consider this problem very seriously.

Summarizing the factors discussed above, China no longer has much room to maneuver in servicing its foreign debt, and real repayment capability is weak. Thus it would be safer to set our repayment ratio limit at 15 percent for the near future. Exceeding 15 percent may land us in a debt crisis. Let us use this standard to assess China's repayment burden over the last several years.

China's Principal and Interest Payments on Foreign Debt, 1985-1988

Year	Amount Paid (Billion U.S. Dollars)	Export Volume (Billion U.S. Dollars)	Repayment Ratio (%)
1985	.84	2.73	3
1986	6.23	3.09	29
1987	5.12	3.94	13
1988	7.18	4.4	16

(Note: The export figures are based on customs statistics)

Debt repayment rose rapidly beginning in 1986, leaping from \$840 million to \$6.2 billion that year and remaining, on average, at the latter level thereafter. The repayment ratio was also high—16 percent in 1988 and 20 percent in 1986, exceeding the limit of 15 percent. The fact that we have such a high repayment ratio during a debt growth stage indicates that there are many short-term obligations in our foreign debt portfolio and that we thus, in effect have advanced our repayment schedule. It is estimated that China will have debt repayments as high as \$8 billion in 1989. In addition, when we take into account the export situation, it would appear that our repayment ratio may rise to about 18 percent. With such a burden, it is safe to say that we have already reached the upper limit of our ability to sustain debt. Thus we must ascertain whether or not we might encounter difficulty in servicing our debt this year and next and prepare for such a contingency as soon as possible.

[4 Sep 89 p 2]

[Text] II. The Main Problems in China's Use of Borrowed Foreign Capital

In a fundamental sense, our ability to ensure that we can repay our debt is determined by the economic results of our use of foreign capital, and these are key to the success of our strategy of financing development through foreign borrowing. Nevertheless, the repayment situation for foreign exchange loans issued by the Bank of China indicates that many enterprises and projects have failed to repay such loans on time: Each year loans worth \$300 million default, and approximately one-third of all projects employing borrowed foreign capital show poor, or even no, returns. Defaulting not only undermines defaulters' production and sales operations but also directly affects China's credit rating. There are two major reasons why the economic results of foreign borrowing are poor.

(1) There is no internal economic restraint mechanism governing the use of borrowed foreign capital. The big-pot practice plaguing China's economic system has spread to debt payment. Many units are very eager to borrow foreign capital so as to take on new projects but do not give much thought to their obligation to repay such capital, a shortcoming that is glaringly manifested in the failure to evaluate the potential risk involved in using such capital. Project feasibility studies often downplay, indeed conceal, unfavorable factors; there is a lack of understanding of change in international markets; and borrowing is undertaken blindly. Borrowed foreign resources are squandered as extravagantly as domestic resources, and waste is serious; some units borrowing foreign capital go so far as to use the capital to import cars, color televisions, and other nonproductive luxury goods. Since there is no way of dealing with defaulters, the state ultimately has to step in and repay loans for them.

Much of China's foreign debt is centrally borrowed and repaid. For such funds, use is divorced from repayment. Users have no ability whatsoever to earn foreign exchange and thus are unable to repay the foreign capital they borrow and have to depend on other departments to earn foreign exchange and effect repayment. This state of affairs means that for many loans there is no assured source of repayment funds, a fact that necessarily exacerbates China's repayment burden.

Restraint mechanisms are supposed to work their magic on local government behavior, yet local government investment fever, which is unique to China, has shifted demand for *renminbi* to foreign exchange, and local governments pressure banks not only for *renminbi* but also for foreign exchange, rashly guarantee loans, and even assume debt directly. The local foreign-exchange retention system has stimulated local borrowing and broadened opportunities for using foreign exchange.

(2) There is no effective unified system with which to manage use of borrowed foreign capital. Propelled by an

overheated economy the past several years, we have madly rushed to borrow abroad; there are now as many as a hundred channels through which to borrow; State Council ministries, provincial and municipal governments, the People's Bank, the Bank of China, other financial institutions, and many leasing companies, firms financed with foreign capital, Chinese enterprises, and local agencies posted overseas all can borrow abroad. Even the Ministry of Finance has directly floated bonds on international financial markets in recent years so as to cover budget deficits. BUSINESS INTERNATIONAL, an American publication, reports that in 1989 foreign loans accounted for 5.6 percent of China's budget, a full four-point rise over the 1984 figure of 1.6 percent. Even the Ministry of Finance, which is supposed to be the watchdog of China's foreign debt, is also borrowing abroad.

All agencies are eager to borrow abroad, yet the state does not have a single organ to manage foreign borrowing. The lack of objective oversight has enabled localities throughout the nation to undertake much redundant importing. For refrigerators and color televisions alone, several hundred production lines have been imported, and to keep the lines running properly, much foreign exchange has to be spent to import key components, a state of affairs that only fuels borrowing and increases China's debt burden. In reality, many production lines, once put in place, are unable to operate at capacity due to lack of foreign exchange, thus greatly weakening our debt repayment capability. Relevant departments of the Bank of China estimate that, compared with the previous 2 years, foreign exchange holdings quotas, which enterprises need to repay their foreign debts, have declined by 45 percent; enterprises' permitted purchases of foreign exchange with *renminbi* have fallen 35 percent; and when other uncertainties are factored in, enterprise debt repayment capability probably has declined by about 30 percent overall.

III. Thoughts on China's Strategy of Using Debt to Finance Development

A. China's Foreign Debt Scenario for the Next Decade

In view of the laws governing international indebtedness and of actual conditions in China, we believe that the past decade, namely 1979-1988, in essence represents a period of mounting foreign debt and includes two stages: The first 5 years (1979-1984) comprised the initial stage, and the second 5 (1984-1988) witnessed rapid growth in debt. During this decade, China's economy was characterized as follows. (1) Outstanding debt rose rapidly, reaching the upper limit of China's capacity to sustain debt. (2) There was a large net inflow of foreign resources, which fueled rapid growth in China's economy and gave it a high growth rate. (3) This inflow drove up demand for related domestic resources and caused demand for money to skyrocket, which in turn provoked excessive supply of money, driving inflation up. (4) In China's foreign trade (including visible and

invisible elements), growth in imports markedly outstripped that of exports, engendering deficit and causing resource inflows vastly to exceed outflows. On balance, China's economic development benefitted greatly from borrowing, and the debt burden is not too onerous. Still, economic growth is marred by two destabilizing factors: double-digit inflation and a trade deficit for several straight years. Thus China has to be considered an immature debtor.

Over the next decade, China's foreign borrowing will enter a new stage of development. First, almost all of our medium- and short-term loans will start to come due, and the lead times for some long-term loans will commence. Therefore, we will have to pay back an average of \$7, \$8, or even \$10 billion each year and thus will no longer be able to increase foreign borrowing substantially. Yet we will also have to continue using foreign resources and assume new debt, though net borrowing is unlikely to be great when service of old debt is deducted. Thus the next stage will witness relative stabilization of China's outstanding debt and should be viewed as a stabilization period. During this stage, China will become a mature debtor, trade deficits should be brought down and begin to show a surplus, growth in exports must exceed that of imports, and inflation must be brought under control once the foreign debt situation stabilizes. The key to China's ability to become a mature debtor lies in whether or not inputs of foreign capital yield the expected economic results. Thus the real foreign exchange earnings of investment projects are crucial to this stage. In selecting projects, we must focus on ensuring that the new products generated by the projects can break into international markets and earn foreign exchange. This desideratum directly affects our ability not only successfully to repay our old debt but also to assume new debt, in other words, to utilize additional foreign resources.

To become a mature debtor, China must establish a modern debt management system.

First, we must have an agency that carries out effective overall management of the entire nation's foreign debt. This agency would not decide borrowing and repayment for each project but effect policy guidance over the total volume of China's outstanding debt and over borrowing, use of borrowed foreign capital, and debt repayment generally; provide guidance for borrowers; and ensure that debt is repaid on time. The Ministry of Foreign Economic Relations and Trade, the State Statistical Bureau, and the State Administration of Exchange Control maintain different standards for computing how much foreign debt China has, so debt figures vary widely. Therefore, we must enhance our ability to monitor external borrowing and maintain complete, up to date, and accurate data on China's debt so as to provide a reliable basis for policy making. Loans denominated in different currencies must rationally be tied together so as to provide a hedge against exchange-rate risk. And policy making by a multitude of agencies and policy volatility must be eliminated so as to ensure policy coordination.

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[Text] Second, we must establish and perfect a mechanism with which to govern debt repayment. In the future, we must reduce centralized borrowing and repayment and directly tie borrowing to repayment such that he who borrows does the repaying. In our current foreign borrowing, external creditors and domestic credit users are linked through two "intermediaries": fiscal agencies and banking institutions. The mechanism employed by fiscal agencies is centralized borrowing and repayment, such that credit users do not do the repaying and repayers do not do the using. The mechanism employed by banks usually links loans and repayment very closely, and project foreign-exchange returns play a decisive role therein. This practice has to do with the operational mechanism of banks. In the future, we should focus on enhancing the intermediary role of banks in external borrowing so as to integrate borrowing and repayment closely.

We must strengthen and give full play to the intermediary role of banks in borrowing, give banks more operational autonomy, reduce government interference, and prevent projects with poor prospects for foreign exchange earning from ever being initiated again upon government fiat.

Government loan guarantees present yet another problem. In many projects, governments frequently offer to guarantee loans so as to obtain foreign capital, a practice that ultimately increases government contingent liability and transfers risk to the state. Thus in future borrowing governments must limit their roles to providing necessary guidance and not get involved as guarantors.

B. New Features of the Global Economy and Changing China's Strategy in Using Foreign Capital

There are two new features in the global economy that warrant our attention. (1) The trend toward formation of economic blocs. The decline of the United States in relative terms and the loss of hegemony, the rise of West Europe and Japan, and the unbalanced development among nations since the beginning of the 1980s have aggravated market contradictions in the global economy, intensified competition in world markets, and caused protectionism to reemerge. Moreover, as productive forces develop, production is internationalizing, and demand for transnational flows of commodities and capital is growing. Under such conditions, economic blocs have begun to emerge. The United States has signed free trade agreements with Canada and Israel, and the United States and Canada have abolished tariffs on each other's products. In 1985, the European Community issued a white paper calling for "completion of an internal market." However, this was followed by the "Delors plan" in 1987, which merely envisioned free flows of commodities, capital, labor service, and labor forces by 1992. Then in June 1988 the European Community and the Council for Mutual Economic Assistance

established formal relations, indicating that the two blocs had formally recognized each other. In the Asian-Pacific region, Japan has actively been organizing an "East-Asian economic sphere," which is to include Japan, the "four little dragons of Asia," and the five members of ASEAN. Japan hopes to strengthen the ties and division of labor among the members of the sphere through a "trinity" of cooperation in trade, investment, and monetary affairs and to promote the development of all members so as to counter other economic blocs. The trend toward economic blocs will have a major impact on the global economy. (2) The Asian-Pacific region has become a growth area in the world economy. During the 1970s and 1980s, developing nations and regions in Asia posted the highest real growth in the world, with an annual rate slightly higher than 6 percent. Of these nations, the "four dragons" have shown outstanding growth, averaging 11.3 percent in 1987 and, despite a slowdown, 9.2 percent in 1988. After successfully weathering two "oil shocks," Japan has been the leading creditor nation in the world for 4 straight years since 1985 (and as of 1988 had amassed net overseas claims of \$149.3 billion). Through the year 2000, economic growth in the region is forecast to get even better, with Asian exports rising by an average of 8.1 percent, imports by 8.9 percent, and gross output value by 6.2 percent, rates that will be much higher than those for other regions of the world. This region enjoys the best hope for growth in the world. China's strategy for using foreign capital and developing external banking institutions through the year 2000 should take full note of these two features of the global economy.

It should be recognized that in the past decade China has just begun to use foreign capital and that foreign investment in China has merely been exploratory, testing the quality of our investment climate and the profitability of investment in our country. Therefore, investment thus far has primarily taken the form of loans, which are less risky, and been directed toward projects in which the state assumes liability; there has been relatively little direct investment in the establishment of factories, and most of such investment that has occurred has been in medium and small projects yielding quick returns. Since our foreign debt repayment burden has already reached the upper limit of our economy to cope, our debt cannot increase very much. Yet the rapid development of the world economy, especially the Asian-Pacific region, will not permit us to slow our advance, so in the next decade we must bring in even more foreign resources and advanced technology. Therefore, we must alter our strategy of using foreign capital to import foreign resources and shift the emphasis from expanding borrowing to attracting direct investment from foreign firms and financial consortia. When foreigners undertake direct investment, they assume greater risk and naturally may earn greater returns, whereas China will avert a repayment crisis.

To expand direct investment by foreigners, we must create a good investment climate, a desideratum that

entails political stability, continuation of our policy of opening up to the outside world, an improved legal system, preferential tax policies, and a suitable labor force; strive to reduce risk involved in direct investment and enable direct investors to obtain profits commensurate to the risk they bear; and provide more opportunity for such investment. In the past, most direct investment was rendered in medium and small projects. In the future we must consider providing opportunity for such investment in large projects.

An important way to raise funds abroad in the future is to aggressively set up financial institutions overseas. Financial institutions are very dexterous in juggling debts, especially termed debts. Given the trend toward formation of economic blocs, this effort should focus on East Asia, a region possessing much idle capital, most of which is concentrated in Japan, Taiwan, and South Korea. In terms both of global trade and of debt burden, China in effect already belongs to the East Asian economic sphere. FORTUNE magazine of the United States (the 17 July 1989 issue) reports that three-quarters, or about \$31.5 billion, of China's foreign debt has come from Japan, a trend that may intensify. We should also strengthen our financial ties with the "four dragons" and change the one-dimensional operations (settling trade accounts) of our financial institutions in these regions to supplying a full range of services, open up channels for investment, provide investment information, and attract large amounts of direct investment from the regions. We should also consider getting more deeply involved in the industrial and commercial activities of the region so as to uncover more export markets and blaze new trails for our own overseas investment.

ECONOMIC ZONES

Xiamen Attracts New Level of Foreign Capital

90OH0095B Fuzhou FUJIAN RIBAO in Chinese
3 Oct 89 p 2

[Article by Yan Fang (1750 2455): "Absorbing Foreign Capital Ascends to a New Level"]

[Text] Xiamen City has ascended to a new higher level in absorbing foreign capital. This is an important sign that the construction of the special economic zone is maturing.

The Xiamen Special Economic Zone (SEZ) was established with the approval of the State Council in October 1980. At first, its imports included mainly small- and medium-sized items, joint ventures, and single-item investment. The proportion of Chinese investment was greater than that of foreign investment. Few industrial projects were technologically advanced or export-oriented.

As investment environment improves day by day and such internal and external conditions such as international industrial structural readjustment and international capital transfer gradually take shape, the Xiamen SEZ has made rapid progress in absorbing foreign capital since 1988. As of the end of August 1989, a total of \$1.444 billion of foreign capital was absorbed; 318 enterprises financed with foreign capital were open. As the Xiamen City government formulated industrial policy, selected investment projects, set forth investment guidance and orientation, promulgated relevant economic rules and regulations, and accumulated more and more experience in foreign work, the Xiamen SEZ's work of absorbing foreign capital has ascended to a higher level...

A large amount of foreign capital has been absorbed, and wholly-owned enterprises account for over one-half. Between January and August 1989, 154 foreign-investment projects were approved. Their total investment was \$413 million. Of which, foreign capital accounted for \$370 million, 89 percent, an increase of 40 percentage points over the corresponding period of 1988. Foreign-investment projects imported in September showed a new trend of capital intensiveness. Among the investment projects signed by Xiamen City with foreign investors at a recent provincial foreign investment and trade talk, over 10 projects had investment exceeding \$10 million, and the highest was \$200 million. Among the foreign-investment projects approved in the first 8 months of 1989, 88 projects, or 57 percent, were financed solely with foreign capital.

Imported items are mostly production- and export-oriented. Ninety percent of projects approved between January and August 1989 are for industrial and agricultural production. All of these projects are export-oriented. As much as 85 percent of their products are exported. A considerable number of projects sell all their products back to the international market.

The range of investment has been expanded and structure has become rationalized. Foreign-investment projects signed in 1989 not only include industry, tourism, breeding, crop growing, communications and transportation, and real estate but also involve infrastructure construction such as container loading and stacking grounds, sea barge fleet, and large-scale power stations, and raw materials and basic industries such as machine fittings, spare parts, and raw and supplementary materials. The livestock, poultry, and fodder production project, which is a joint venture of the Xiamen livestock and poultry (group) company and Hong Kong's Zhengda group, has realized a "coordinated process" for fodder production, the supply of young livestock and poultry, and the breeding of meat hog and poultry. This not only can promote livestock and poultry production in the SEZ, improve the nonstaple food supply situation of the SEZ market but also can provide 35 percent of products for export.

The number of technologically advanced projects has increased, and the level and grade of products are higher. The past situation in which simple-processing, assembly, and primitive products accounted for the majority has obviously been changed. Projects such as precision numerical-controlled machine tools, home computers, shrinkable program-controlled systems, luxurious buses, and light airplanes, which are of current international standards, have been completed and put into operation or are under intensive preparation and construction.

Foreign investors like Xiamen's investment prospects; consequently, they have bought land and property for large-scale development. Individual and single-item imports have developed into integrated, serialized, and industry-wide imports. Recently, Hong Kong's Tianan Investment Company bought 380,000 square meters of land in the Huli industrial district for the construction of an industrial village. In addition to building industrial factories and warehouses, it will build such facilities as supplementary buildings for official and commercial uses and dormitories for workers. The Hongtai Development Ltd invested over 40 million yuan to build a science and industry garden. It will soon invest more money to purchase a large amount of scientific research and production equipment. The first phase of the Zhenxing tire project cost \$20 million, and its investment will reach \$120 million in 5 years. This project has not only brought in the two bicycle projects of Jian and Meilida but also brought in two automobile production projects, forming serialized and industry-wide imports.

Xiamen State Enterprises Separate Taxes, Profits

900H0095A *Fuzhou FUJIAN RIBAO* in Chinese
5 Oct 89 p 1

[Report by staff reporter: "State-owned Enterprises Separate Taxes and Profits and Enhance the Ability of Self-Transformation and Development—Xiamen City Deepens Enterprise Reform"; a related article appears on pp 37-38 of JPRS-CAR-89-102 of 12 Oct 89 under the headline "Xiamen's Experience With Separating Profit, Taxes"]

[Text] Xiamen City has further deepened the enterprise reform by enforcing in an all-round way "separation of taxes from profits" in state-owned enterprises, thus smoothing out the relations of property right and profit distribution between the government and enterprises and enhancing the self-transformation and development ability of enterprises.

This reform is an improvement and development of what enterprises carried out in the past such as expansion of decisionmaking power, two-step substitution of taxes for profits, and contract management responsibility system. After one and one-half years of practice, this reform has achieved remarkable results. In the past, due to the enforcement of before-tax loan payment, enterprises ate from "the same big pot" and contended for investment, thus separating the borrowing from the

use of loans and resulting in a widespread malpractice under which "policymakers take no risk and spenders assume no responsibility." Now that taxes are separated from profits, income tax rate and previous "before-tax loan payment" have been reduced simultaneously, thereby increasing enterprise's profit retention, namely enterprise's production and development funds. According to the statistics of 67 state-run industrial enterprises which are covered by the budget of the special economic zone, in 1988 after this reform measure was adopted, enterprise's profit retention reached 135.82 million yuan, a 3.4-fold increase over 1987 before the reform measure was adopted. In 1988, banks recovered 9.358 million yuan in fixed-asset investment loans, accounting for 68.9 percent of enterprise's total profit retention. Enterprise's self-transformation and development funds should rely on after-tax profit retention which is controlled and managed by enterprises themselves to force them to increase investment returns. In 1988, the delivery rate of the fixed-asset investment of state-run industrial enterprises reportedly has increased to 78.6 percent from 48.6 percent in 1987.

Is revenue income affected by lowering the tax rates? A leader of the city financial bureau had a good answer. He said: When judging the financial impact of a reform measure, we should not merely look at the current year from a static point of view. Instead, we should look at the future from a dynamic point of view. According to the statistics of the 67 budgetary state-run industrial enterprises, in 1988, sales income increased 33.9 percent, gross profits increased 22 percent, and various taxes and profits delivered to financial departments increased 10.4 percent. If calculated on profit distribution alone, income taxes and profits delivered to the state in 1988 were 2.37 million yuan less than the actual amount of income taxes and regulatory taxes delivered to the state before the implementation of this reform. However, since before-tax loan payment was changed to after-tax loan payment, the expenditure of financial departments was reduced by 26.61 million yuan. So revenue income was actually increased by 24.24 million yuan. According to the statistics compiled between January and June 1989, income taxes and profits delivered to the state by budgetary state-run industrial enterprises increased 108 percent as compared to that of the corresponding period of 1988. In this reform of separating taxes from profits, Xiamen City also put the focus of work on appraising and deciding a rational proportion for enterprise's after-tax profit delivery to the state. Its adjustments are based on such factors as the actual conditions of the past few years after the reform, the average profit level and needs of industry, and the amount of loan payment to banks. Xiamen City implements "a different rate for each household" with 1 percent as the lowest and 35 percent as the highest. This is to embody the principle of "encouraging the advanced and spurring on the backward" and to increase enterprise's vitality.

Shenzhen's Third Quarter Foreign Investment Up

90OH0118B Shenzhen SHENZHEN TEQU BAO in Chinese 28 Oct 89 p 1

[Article by reporter Lin Fa (2651 4099): "Farsighted Foreign Businessmen Seize Opportune Time to Invest in Shenzhen: The City Succeeds In Attracting Foreign Investments—Third Quarter Direct Investment by Foreign Businessmen Tops \$72.49 Million"]

[Text] Since "June 4," some have predicted that Shenzhen's foreign investment will plummet in the third quarter, but the facts surprised everyone: 186 new foreign fund utilization agreements (contracts) have been entered into; they provide \$107.81 million in foreign funds as agreed, and \$107.27 million are in actual use. Compared to the first and second quarters, these figures represent balanced growth. In addition, direct investment by foreign businessmen are worth \$72.49 million, more than double the \$33.63 million invested in the first quarter and at par with the second quarter figure.

The foreign investment situation from January to September of this year looks promising. City-wide, a total of 516 new foreign fund utilization agreements (contracts) have been entered into; they provide \$349.92 million in foreign funds as agreed—they represent 4.7 percent and 6.6 percent, respectively, an increase over the same period last year. Specifically, the dollar value of direct investments as agreed by foreign businessmen has increased 8.2 percent over that of last year's for the same period; the foreign-funded portion of the joint-venture projects is worth \$117.71 million as agreed; actual investment is \$113.19 million, a 120 percent increase over last year's for the same period.

Economists here suggest that the reason Shenzhen has been successful in attracting so much foreign investment in the third quarter is basically because reform and opening up is truly the way to make the country strong. China's policy of reform and opening up has not changed because of the "June 4" disturbance. Meanwhile, Shenzhen's government and other departments have done a good job in convincing and pacifying foreign businessmen in a timely fashion to reinforce their confidence in investing in Shenzhen. Thus, while some other people are still wondering, many farsighted foreign entrepreneurs and knowledgeable businessmen have lost no time in investing and doing business in Shenzhen.

Shenzhen's Need To Augment Key Infrastructure Reaffirmed

90OH0118A Shenzhen SHENZHEN TEQU BAO in Chinese 30 Oct 89 p 1

[Article by SHENZHEN TEQU BAO commentator: "Shenzhen SEZ Urgently Needs to Augment Its Key Infrastructure—Fifth in a Series of Lessons From Comrade Jiang Zemin's National Day Speech"]

[Text] In his speech delivered on National Day, Comrade Jiang Zemin focused on the long-term strategy of China's modernization, targeted China's poor industrial structure, and emphasized the importance of strengthening our basic industries, adjusting the industrial structure, and striving to maintain staying power to further China's economic and social development. In his speech, he urged us to concentrate our financial and material resources on supporting basic industries, such as agriculture, energy, transportation, communications, and key raw and processed material industries, so as to increase the nation's productive capacity. The Party Central Committee made this correct decision after examining the state of the country's economic development. This decision plays an important guiding role in helping the country surmount the many economic problems and in guaranteeing the continuous, steady, and smooth development of the national economy.

Infrastructure is also known as "tangible environment." The condition of a city's infrastructure is one of the important indicators of its investment environment. In order to generate a good investment environment, attract more foreign investors, and develop its export-oriented economy, the Shenzhen Special Zone has always worked to improve its infrastructure, and it has been very successful. Shenzhen was once a small border town; today, it is a fledgling modern city. However, because its economy has developed too rapidly, Shenzhen's infrastructure is far from able to meet all the needs today, and in some areas, the problem is indeed serious. For example, since it became a SEZ [Special Economic Zone], Shenzhen has managed to increase its power supply at an average rate of 59.3 percent a year and its water supply by more than 40 folds over the 9-year period, but because the economy has also been growing rapidly, and in addition, because we have not kept even control over the development of the imported material processing industry in the past, we now have a serious power shortage problem. In recent years, frequent, extensive brown-outs have been inevitable, causing some manufacturing enterprises to work 4 days and shut down for 3, or even work 3 days and shut down for 4. Since summer of this year, water supply for industrial use has been a repeated problem too. Relevant information indicates that, in the last 10 years, Shenzhen City's GNP, national income, and total value of exports have been increasing at an average annual rate of 49.4 percent, 48.4 percent, and 80.1 percent, respectively, and meanwhile, the number of cars going in and out of the port area has increased 41 folds. Shenzhen's existing transportation, communications, and other facilities simply cannot keep up with this kind of economic growth. In short, today's tight supply of water and electricity and inadequate transportation and communication facilities are undermining Shenzhen's investment environment, jeopardizing its economic development,

and hurting its economic performance. Thus, it is obvious that augmenting Shenzhen's infrastructure is not just a program of lasting importance for the SEZ's economic development but is also a pressing matter of the moment. Only by augmenting its infrastructure can Shenzhen increase its staying power to further its economic and social development, and only then can its export-oriented economy forge ahead.

Recently, the city party committee and the city government made the decision in selecting nine major infrastructure projects. They include building an airport and a power plant, finding new water source, developing sewage disposal at sea, building a salt marsh port and its connecting railroad and highway systems, remodeling and expanding the Luohu Train Station, Huanggang Port construction, and post and telecommunications and other communications projects. Today, work on most of the projects are in progress, and preliminary works are being completed for those that are not already underway. The extensive layout, the grand scope, and the profound significance of these projects are obvious. Over the next 3 to 4 years, these nine major infrastructure projects will be completed in succession; Shenzhen's investment environment will improve significantly, and Shenzhen Special Zone of economic development will enter a new phase.

Augmenting the infrastructure requires huge sums of money. This inevitably will affect Shenzhen's financial input into other areas. But, like the rest of the country, the SEZ is trying to cut back on fixed asset investments. Under the circumstances, the decision of which project to save and which to abandon will affect the city's overall scope of fixed asset investment. This means we must first seek unity of thinking. We must promote the concept that short-term profit is subordinate to long-term benefit, the interests of a few are subordinate to the interests of the whole, and individual and collective interests are subordinate to the interests of the country. We must truly understand, in our own thinking, how important and urgent it is for Shenzhen to cut back on fixed asset investments and concentrate its funds on infrastructure projects. Furthermore, we must support the party Central Committee's strategic program in action and do a better job in Shenzhen. Reducing the scope of fixed asset investment does not mean there is less basic construction responsibilities; on the contrary, it sets a higher standard for basic constructions, that is, it demands even higher return on investment. We must keep the long-term strategy of Shenzhen's economic construction in mind, look at the realistic situation, pay more attention to selecting the best investment projects, and strive for higher economic efficiency, and while we painstakingly work on those nine major infrastructure projects, we should carefully study and rank the other projects according to efficiency and importance and raise funds to start other necessary projects to promote continuous, steady, and smooth economic development in the SEZ.

POPULATION

Guangxi Family Planning Propaganda Conference Ends

HK2411041589 Nanning Guangxi Regional Service in Mandarin 1100 GMT 23 Nov 89

[Text] A 3-day regional conference on family planning propaganda work concluded in Nanning yesterday. Representatives from throughout the region placed emphasis on the study of our region's specific measures for implementing the guidelines of the national forum on family planning propaganda work and on the study of the issues of conducting education in the basic national conditions and policies throughout our region.

The representatives present at the conference agreed that the present family planning propaganda and education work of our region far from meets the needs of promoting the development of family planning work and deferring the excessively rapid population growth.

Therefore, Li Zhenqian, vice chairman of the regional people's government, stressed four issues in solving these questions:

1. It is necessary to fully understand the importance of family planning propaganda work. Carrying out family planning work, strictly controlling the population, and protecting the ecological environment is an overall issue that is important for economical development. From the long-term interests of our nation and the overall situation to the depth of the strategy, we must understand the important significance of family planning work.
2. It is essential to persistently grasp the basic national conditions and policies as the central link. Our region is in its third peak period of birth. Its population quickly increases by approximately 700,000 births a year. There are now some 8 million women of child-bearing age throughout our region. In the 12 years before the end of this century, there will be some 5 million women who will reach marriageable and child-bearing age. This will aggravate the grim population situation in our region.
3. Party organizations at all levels must put family planning propaganda work in an important position. In coordination with all departments, the propaganda departments of the party committees must take the lead in stepping up propaganda work. It is imperative to vigorously give play to the leading and supervisory role of the press and public opinion.
4. It is necessary to strengthen the building of the propaganda force, to strive to enhance the family planning propaganda standard, to conduct investigations and in depth study, and to strive to work out a method of multilevel and multiform family planning propaganda and education that suits the characteristics of one's own unit and place.

At the conference, (Wei Songping), chairman of the regional Family Planning Commission, gave a speech

entitled: "From the Realities of Our Region, It Is Essential To Carry Out All-People Family Planning Propaganda and Education." (Zhang Bing), deputy director of the Propaganda Department of the regional party committee, delivered the conference summation speech.

AGRICULTURE

Article Evaluates PRC Grain Purchasing Methods

90OH0054A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 2 Oct 89 p 4

[By Ma Xiaohua (7456 2556 5478) of the Commodity Trade Department, Ministry of Finance]

[Text] Producing a method for grain purchases is always mutually linked to the given system of buying and selling, to pricing policies, and to other economic measures. There now exists a relatively strong controversy between theoreticians and certain comrades from the actual working departments over the contract fixed purchase method. There are some who would suggest amending the name and others who would suggest doing away with the method. The method of contract fixed grain purchases was put into effect in 1985. Has the time come to revise it or even eliminate it completely? The writer cannot agree that it has. A careful comparison of the several methods of grain purchases that have been in effect since the founding of the People's Republic shows that the major issue now is by no means whether the method of contract fixed purchase should be revised or even eliminated. It is rather that we should conscientiously learn how to supplement and perfect the economics of the method of contract fixed grain purchases so that its form and content are more organically integrated.

Since the founding of the People's Republic, China has employed the following three methods or forms of purchasing grain:

1. The "base purchase plus above quota purchase" method. This method was used for the longest period. Begun in the early sixties, it continued in use until 1984. This was actually a dual track method divided into two parts. The first part consisted of the state fixing that portion of grain, which included the agricultural tax paid in grain, that the peasants had to sell to the state. This was done to guarantee basic military and civilian grain supplies. The price for this portion was the relatively low state purchase price for requisitioned grain. The second part was to encourage peasants to conserve on their use of grain and to sell more to the state. For peasants whose grain sales to the state exceeded the fixed base amount, the state would apply an above quota purchase price based on a percentage of the state purchase price. In the sixties, it varied from 10 to 30 percent. In the seventies, it was 30 percent. And in the eighties, it was 50 percent. It must be said that this method played a definite historical role in guaranteeing military and civilian grain supplies, in stabilizing people's lives, and in ensuring the

stable development of the national economy at a time when China could not meet its need for increased grain production. However, in the course of its implementation, some abuses of this method were revealed. Mainly because of the existence of two prices, the peasants would always do everything possible to lessen the base amount of the requisition purchase and to increase the above quota purchase price amount sold to the state to obtain more income. They did this to such an extent that there commonly occurred the unhealthy tendency to illegally obtain the above quota state prices by scheming to sell "resold grain" [zhuan quan liang 6567 0946 9037]. After 1979, China continued to have bumper grain harvests for several years, with the 1984 harvest being the largest on record. Because of this dual track method and the highly monopolistic and open-ended state purchasing system and because of the existence of both the state purchase price and the above quota purchase price, the state granaries were insufficient to hold the grain. The peasantry experienced a "grain sales crisis," and the state a "grain storage crisis." At the same time, less and less of the fixed base portion of grain and more and more of the above quota purchase price grain was sold to the state. As the state purchases of grain increased so did the financial subsidies. This placed a heavy burden on state finances.

2. The "contract fixed purchase" method. In view of certain abuses that had occurred in implementing the fixed base and above quota purchase price method and because, in 1983 and 1984, the grain supply situation in China took a marked turn for the better, the State Council stipulated that beginning in 1985 the state would replace the "base purchase plus the above quota purchase" method with the "contract fixed purchase" method. The contract fixed purchase grain was principally rice, wheat, corn, and, in the main areas where they were grown, soybeans. The overall purchase price was calculated by the "inverse 3:7" ratio. For each 50 jin of grain, 30 percent of the purchase was based on the original state purchase price and 70 percent of the purchase was based on the original above quota state purchase price. In view of the trend toward an easier, more favorable grain supply situation in China at that time, the destruction of the open-ended state purchasing system that had been in effect for more than 30 years and the replacement of the fixed base and above quota purchase price method with the single contract fixed purchase method has been a wise choice that has conformed perfectly with the new uninterrupted growth of China's planned commodity economy. What was regrettable was that, during its first year, this method was beset by various subjective and objective factors, by a rather large reduction in grain output, and by the unwillingness of the peasants to sell more grain to the state than the contract fixed purchase amount. Thus, barely after it had been put into practice, the method fell into dire straits.

3. The "contract fixed purchase plus negotiated purchase" method. This was also a dual track method. It was a another form of the "base purchase plus the above quota

purchase" method. As a result, some peasants termed it more of state purchase method than a state purchase method. In 1985, because the contract fixed purchase of grain fell short of completion, there existed a relatively large gap between revenue and expenditures for the state priced grain, and grain reserves were delved into to make up the shortage. Thus, to balance the expenditures and revenues for state priced grain, the state in 1986 on the one hand adjusted the contract fixed purchase quotas downward and on the other hand put into effect the "negotiated to parity" grain purchase prices. (In the beginning the term "consignment purchases" was used and later "negotiated to parity." They were both the same.) In this way, grain purchases not only returned to the dual track but multiple grain prices, such as the proportional prices of the contract fixed purchases, the state negotiated purchase prices, the negotiated purchase prices of the grain departments, and the market prices, also appeared. The system of dual track grain purchases, and especially the multiple price situation, did not contribute to firming up contract fixed purchases or revitalizing market adjustments. Likewise, to a certain extent, the tense relationship between the state and the peasants was exacerbated, grain departments purchasing work was obviously made difficult, and the heavy burden of state financial subsidies was increased.

We can at least derive the following two conclusions from having experienced the process of China's grain purchases evolving from the "base purchase plus above quota purchase" to "contract fixed purchase" and then to "contract fixed purchase plus negotiated purchase":

1. China must continue to have a strong form of grain purchasing. The "base purchase" method is a strong form, and the present "contract fixed purchase" method with its emphasis on the state's task is also a strong form. (It still is not equivalent to a voluntary form.) The basis for this is that China's agricultural labor productivity is low (the commodity rate of agricultural products is not high) and that the disparity in the price of farm products and industrial goods cannot be eliminated in a short time. As a result, continuing a strong form of grain purchasing is absolutely necessary under currently existing economic conditions where the purchase price of grain is not an exchange at a completely equal value.

2. It would be inadvisable to propose a "dual track system" as a form of grain purchasing. First, the stability of grain prices is adversely affected by the simultaneous existence of both high and low prices. In fact, this is likely to lead to the high prices undermining the effort to lower prices. The peasants will always do everything possible to prevent the lowering of prices. Second, a dual track not only makes it extremely difficult to implement grain purchasing work, it also creates an increasingly heavier burden on state finances. Looking at what actually happened in the last few years, we see that the state spent a great deal of money to subsidize the "negotiated to parity" price differences as well as the "three link-ups." However, the actual results were far from ideal. The peasants will do their best to achieve an advantage

and only understand prices. They do not understand hidden subsidies—that if prices do not change, the hidden subsidies will again increase. This effect is not all that obvious. Actually, if we had lumped together the money used for hidden subsidies and the money used to trim prices in the last few years and used it to raise the proportional prices of the contract fixed purchases of grain, the results would definitely have been much better than the present situation. Third, from a theoretical point of view, the dual track system of purchasing now in effect is an earth-shaking development. It is not an organic part of the dialectical unity associated with a planned commodity economy, and it does not conform to the requirements to develop China's planned commodity economy.

Thus, to continue to maintain a strong form of purchasing and to absorb the past lessons of the "grain sales crisis" and the "grain storage crisis" as well as the economic lessons of having vacillated back and forth between left and right, any future method that China selects for purchasing grain should use a contract fixed purchase system plus have available the national capacity to handle the grain volume. The national capacity to handle the grain volume that is part of this method is definitely not a one-way proposition. Its purpose is to regulate the grain situation on a national scale so that grain from bumper harvests can compensate for crop failures. Even during years of bumper harvests, the state, to encourage the peasants to continue to plant grain, purchases as much as possible to store for future use. Then, during years of reduced production, it sells a portion of the grain from its stores to stabilize the market. The national capacity to handle the grain volume is a relative flexible form of objective regulation and control. This is actually a contract fixed purchase system. The following are the main reasons why we have selected the "contract fixed purchase" method and not the "base purchase" or the "planned purchase" methods: First, we cannot follow the same old disastrous road. "Base purchasing" was the state purchasing method of the past. It would be inadvisable to use it again. "Planned purchasing" is a broad concept, not a specific purchasing method. Second, compared to "base purchasing" and "planned purchasing," "contract fixed purchasing" can accommodate more economic substance. Contract fixed purchasing is both an economic contract and a state task. It is an obligation that the peasants must do their best to fulfill. It has a twofold nature that embodies greater economic substance. Its scope is broad in application, but narrow in form. Third, in looking at the actual process, we see that the peasants do not consider their contract fixed purchase responsibility to the state a debt. They see it as an obligation that must be fulfilled to the best of their ability, and they do not see it as a low price (unequal) exchange. Thus, "contract fixed purchasing" is a fine scientific method. The problem is that contract fixed purchase prices have to be equitable. They must be as close as possible to an exchange at equal value. Even though they might temporarily not be an exchange at equal value, grain purchase prices must be

made equitable by ensuring that they have a proper price relationship with other cash crop prices.

Government Official on Agricultural Mechanization

90OH0165A Beijing ZHONGGUO NONGJIHUA BAO
in Chinese 28 Oct 89 p 2

[Article by Minister of Agriculture He Kang (0149 1660): "Improving Administration of Agricultural Mechanization"]

[Text] China has a large quantity of farm machinery, and it is spread among millions upon millions of peasant households in which the peasants' scientific knowledge and technical expertise is very low. Good administration and good use of farm machinery is a major task in raising the machine utilization rate. Substantial changes have taken place in China's rural villages and among the peasants as a result of 10 years of reform, and we are facing numerous new circumstances and new problems. We must fully consider the changed circumstances, selecting more rational plans, genuinely achievable goals, effective administrative methods and correct policy measures.

I. Basic Principles for the Administration of Farm Machinery

The process of mechanizing China's agriculture has followed a tortuous road, so summarization of historical experiences, and proceeding from China's own circumstances in the selection of relatively suitable policies holds especially important significance. Whether it will be possible in the days ahead to define the principles involved in this regard in the administration of farm mechanization is a matter that everyone can study.

First, it is necessary to take service to agriculture as the main purpose, and increasing the soil's productivity rate as the main emphasis in the mechanization of agriculture. The basic source of power for the development of agricultural mechanization is the needs of agriculture. Mechanization that is divorced from the needs of agriculture is predestined to failure. Farm mechanization must serve the development of agriculture. One main factor limiting farm production in China is the scarcity of cultivated land. How to produce as much agricultural products as possible from limited cultivated land is the key in developing China's agriculture. In emphasizing service to agriculture as the main purpose, increase in the land resources utilization rate must be the primary goal of agricultural mechanization, and the main emphasis in agricultural mechanization must be on increasing the level of mechanization in the farming industry. Farm machine supervision and fuel allotments will have to be applied in a sensible manner to get more machines into the fields to do work. In addition to the conventional emphasis on the development of cultivated land, sowing, harvesting, drainage and irrigation, and plant protection, in the course of improving medium and low yield fields, protecting the soil against erosion, and

the zoning of agriculture, greater inputs of machinery will be required to improve the efficiency of these activities. A number of machines will have to be vigorously developed for applying plastic ground mulch, sowing fine quality seeds in small amounts, deep fertilizing, and for the conservation of water for irrigation in dryland agriculture, all of which play a marked role in improving grain yields.

Second is tailored guidance, and emphasis on making breakthroughs. This is a pertinent principle that was raised in a summarization of historical experiences in agricultural mechanization. Mostly, it means proceeding from realities and taking account of different conditions between one area and another when selecting and deciding on agricultural mechanization development strategies, steps, key points, and measures. One profound lesson learned in the development of agricultural mechanization prior to 1980 was that the practice of "arbitrary uniformity," lack of concern for different conditions, and rigid insistence on moving ahead in step is a mistake. Thus, it is necessary to proceed from China's basic situation of being a vast land in which economic and natural conditions vary greatly, adopting different responses to different types of areas. This policy, which reflects the line of thinking of seeking truth in facts, should continue to be upheld.

Third is to take economic returns as the key issue. Economic returns are a prerequisite on which the performance of all economic activity depends. Analysis from the microeconomic angle shows that only when the input of machinery yields real economic benefits will the peasants be happy to make this choice, and only then will the mechanization of agriculture have a firm foundation for development. Looked at from the macroeconomic angle, economic returns are, in reality, an effective indicator of whether resources inputs are rational. The intensity of demand for agricultural mechanization is primarily a reflection of the amount of economic returns, and it has an effect on real economic activity. In both a microeconomic and a macroeconomic sense, economic returns serve as a standard for the mechanization of agriculture. As regards the present situation in which microeconomic and macroeconomic interests are not coordinated in certain regards, the two will have to be reconciled through readjustment of benefit relationships.

Fourth, is to take updating as the key link, holding speed of growth within appropriate bounds. The amount of farm machinery in China has increased very rapidly in recent years, but at the same time the models have become outdated, machines and implements have aged, their technical condition is poor, and utilization rates are low. In terms of structure, performance, and useful life, China's farm machinery is generally more than 20 years behind that of economically developed countries. A substantial amount of the machinery now in use in China's rural villages has outlived its economic life. Today, 160,000 large- and medium-size tractors have been in use for 15 years or longer. On state-owned farms,

approximately 40 percent of all large- and medium-size tractors, and approximately 50 percent of large- and medium-size farm implements have been used for too long. The efficiency of these machines that have been used for too long has generally declined by 20 percent, and their fuel consumption rate has increased by 25 percent. This not only increases repair and maintenance costs, but also makes the diesel fuel shortage worse. Therefore, both the structure and performance of machinery has to be improved, and the scrapping of old machinery has to be encouraged, with increases in the total numbers of machines held within suitable bounds. Over the long run, fundamental solution to the farm machinery updating problem will require the application of economic regulation methods, readjustment of benefit relationships, eradication of the economic conditions that encourage the use of old machines, and the formation of strong motivation for inputs of new machines. Right now, firm attention should be given to the drawing up of standards and actions to be taken to replace machinery. We envision emphasis during the Eighth 5-Year Plan on the replacement of large and medium size tractors and associated farm equipment over 15 years old. The problem of funds for this replacement will be solved through a combination of self-collection, loans, and financial subsidies by the central government, local governments, state-owned farms, rural collectives, and individual peasants. It is hoped that the units concerned will provide support.

Fifth, is the coexistence of multiple forms of ownership and multiple forms of administration. Currently, a substantial portion of the country's farm machinery is in the hands of individual rather than collective entities. The family will continue to be the basic organization for agricultural production. Peasant decision making authority about the use of farm machinery should be consolidated, their legal rights and interests protected. They should also be encouraged to increase investment, and they should be provided with better guidance and administration. Some places have solved the constraints that ability to pay and machine utilization rates impose on the purchase by individual entities of farm machines, particularly large model machines, through resort to collective ownership and collective use, or through individual contracting of their use, the formation of mechanized farming teams, and agricultural workshops. There are good reasons for all these methods, which should be given support and guidance. Many different kinds of farm machine administrative methods should exist at the same time, complementing each other and competing with each other. In places having requisite conditions, where the situation favors active development of collectively run, and cooperatively run state-owned farms, large and medium size farm machines should be mostly under ownership of the whole people, and all forms of administration further improved.

In summary, we must hold to the line of thinking of seeking truth in facts, and proceed from realities as they exist in China, fully considering requirements in terms of

funds, energy, and farm machinery production to do a solid job of developing the mechanization of agriculture so that it is consistent with the operating laws of a commodity economy.

II. Improving the Effectiveness of Farm Mechanization Administration

The effectiveness of farm mechanization administration is reflected ultimately in the way in which it affects peasant purchases and use of agricultural machinery. The main basis on which peasants decide whether to buy agricultural machinery, and how they will use it once bought is economic returns from it. In this sense, the material benefit relationship has become the decisive relationship affecting the speed of development of agricultural mechanization. The main form of farm mechanization administration should be to apply economic regulation techniques to restructure benefits to realize development goals that reflect overall benefits, macroeconomic benefits, and long-term benefits. The administrative goals can be better realized only through the use of economic methods primarily in combination with appropriate administrative methods and legal methods.

One important requirement for effectiveness in improving administrative work is the setting up of rational administrative organizations. Currently, there is no single organization responsible for the administration of farm mechanization. The situation of overlapping and decentralized leadership with no distinction among government functions really gets in the way of doing a good job. Necessary actions must be taken to better staff, improve, and rationalize farm mechanization administrative organs. Practice in recent years has demonstrated that the establishment of agricultural mechanization administrative organs in the agricultural sector is best, with agricultural units improving the leadership of and support to agricultural mechanization work.

Approximately 20 million people are involved in farm machine administration, service, science and technology, education and training, and use of farm machines in China. Capital construction to improve education and training, actively developing educational and training endeavors to improve the quality of this corps is the way to improve administrative effectiveness. Firm attention should be given to this work.

The administration of agricultural mechanization is an organic totality, all aspects of which must be closely coordinated.

III. Consolidation, Perfection, and Development of an Agricultural Mechanization Service System

The natural characteristics and the technical level of China's agricultural production, the peasants' administrative and management competence, and the socioeconomic functions that peasant families perform will determine for a long time to come that no fundamental change will occur in the pattern of the basic units of agricultural production. Development of various forms

of socialized services on a foundation of family farming is a main ingredient in the deepening of rural reform. After 40 years of effort, a certain foundation now exists for China's agricultural mechanization service system; however, problems continue to exist in the form of weak capability, antiquated service techniques, and incompleteness of functions. Further improvement is needed. Township and town agricultural mechanization service organizations are grassroots level organizations for providing services directly to agricultural producers and farm machine operators. They are key organizations that should be built up. Sites for them should be selected rationally on the basis of needs and actual circumstances. Active support should be given to rural collectives and individual peasants in the operation of all kinds of agricultural mechanization services. The principles of commodity exchange should be employed in rendering services for compensation, collecting reasonable fees. This would make people more willing to provide these services. Farm machine repair is an important aspect of service. Ways should be studied to establish a sensible and workable repair system, to improve industrial administration, to better capital construction, and to improve repair quality. Services in the fields of technical training, popularizing, and providing spare parts and fuel should be actively developed as circumstances require.

IV. Increasing Investment of Funds and Materials in Agricultural Mechanization.

The peasants have invested tens of billions of yuan in agricultural mechanization during the past 10 years of reform. As the principal investor, the peasants have increased microeconomic vitality, and improved returns from the investment of capital; thus, the development of agricultural mechanization possesses a rather complete foundation in being. However, sole reliance on peasant investment will not suffice, not only because of the insufficient amount of funds they possess, but also because of the difficulty in shaping a fairly rational development structure in this way. Therefore, state and collective investment remains essential. The role of state investment is primarily for "guidance." It is to encourage collectives and peasants to buy machines used in grain production for which the one time investment is large. It is also necessary to insure needed funds for farm machine research, promotion, training, supervision, and service units. Units concerned should devote serious attention and study to solving problems caused by a reduction in state funds provided for agricultural mechanization. In the future, a portion of agricultural production development project and agricultural development funds, and of funds to fight disasters, and other investments in agriculture, including those for "bumper harvest plans," the building of commodity bases, the development of agricultural zones, the building of commodity export bases, and for the economic development of impoverished areas should be used for agricultural mechanization. Local government financial departments should also increase investment appropriately as actual

requirements and financial resources warrant. Funds should be collected from multiple levels and through many channels, the peasants providing the most, to solve the problem of funds for the development of agricultural mechanization. Local governments establishment of agricultural mechanization development funds is one good way of solving the problem that places having the requisite conditions might employ. The Chinese Agricultural Bank's recently issued circular notice on better agricultural mechanization loan administration and the State Pricing Bureau's circular notice on limits on the collection of various fees, both of which affirmed the collection of agricultural machinery administration fees, and called for the framing of workable fee collection standards provide powerful support for solving the problem of funds needed for agricultural mechanization. Necessary assurances must also be given about the diesel fuel and materials needed to make repairs, as well as other materials needed to develop agricultural mechanization.

Comrades, the development of agriculture urgently requires the development of agricultural mechanization. Wasting no opportunity to advance the mechanization of agriculture is a daunting and pressing problem that we face. Agricultural departments and agricultural mechanization administrative units at all levels should coordinate closely to do a good job in all regards in the development of agricultural mechanization to make a contribution to the flourishing of the rural economy.

(This article formed the third part of a speech that Comrade He Kang gave on 25 October at the National Agricultural Machinery Work Conference)

Qualitative Growth of Farm Machine Industry Stressed

90OH0175A Beijing ZHONGGUO NONGJIIUA BAO
in Chinese 28 Oct 89 p 4

[Article by He Guangyuan (0149 0342 6678), vice minister of machine-building and electronics: "Some Thoughts on the Future Development of the Farm Machinery Industry"]

[Text] In his speech on the nation's 40th anniversary, Comrade Jiang Zemin [3068 3419 3046] reiterated our strategic goal of achieving socialist economic construction in three stages. He said, "With this strategic goal, we are neither shooting for instant success nor adopting a do-nothing policy. On the contrary, it fits our nation's reality and is achievable with hard work." Agriculture is the cornerstone of the nation's economy, a critical part of its economic development strategy. The development of industry is inseparable from agriculture. The development of agriculture, in turn, requires industry to supply all kinds of technical equipment. Practice proves that any effort to solve China's agricultural problem must begin by developing agricultural productive forces. And farm machinery is an essential component of such forces. Thus the farm machinery industry is facing a new

challenge as well as a new opportunity. As noted above, there are numerous difficulties and problems facing the farm machinery industry. We must face up to them squarely and solve them gradually. At the same time, we should open our eyes to the favorable conditions for solving the difficulties: correct guidance from the CPC Central Committee and State Council, support from all sectors involved, increasing agricultural inputs, a vast market in the countryside, as well as the industry's own prowess and experience built up over a period of 40 years. We will certainly be able to overcome the hurdles ahead and make the farm machinery industry more successful. As for how to develop the industry in the future, let me offer some suggestions.

(A) Clarifying the guiding thought and principles of development.

In formulating the guiding thought and principles for developing the farm machinery industry, we must proceed from the state of the nation, the needs of agriculture, and the existing base of the industry itself. The guiding thought for the development of the industry is as follows. "The goal of the industry is to satisfy needs. Its objective is to serve users. It should be based on comprehensive industrial planning and macro regulation and control. It should emphasize quality, variety, standards, and complete sets of equipment. It should increase the profitability of enterprises, upgrade product quality, and satisfy the demands of agriculture and related industries." Here I must explain why "it should be based on comprehensive industrial planning and macroregulation and control" is part of the guiding thought. It has been included specifically with the "fragmentation" and "chaos" in the industry in mind. If we do not tackle the "fragmentation" and "chaos" and impose effective control and regulation, the farm machinery industry will not change its look significantly. We hope local cadres will take the general picture as their starting point and develop "popular products" with local characteristics by exploiting their local strengths. The last thing they should do is to set up their own little kingdom and use what limited funds they have duplicating one another's projects.

The principles for developing the farm machinery industry are as follows. As far as products are concerned, combine the large, the medium, and the small, with emphasis on the medium and small. Increase the share of large- and medium-sized farm machinery as the rural service system takes shape, the scale of land management expands, and state-run farms, forestry centers, pastures, and fisheries develop. As far as technology is concerned, combine applicable technology with advanced technology, with emphasis on the former. Supply the vast countryside with applicable inexpensive technology as well as provide economically developed state-run farms, forestry centers, pastures, and fisheries with advanced machinery and equipment in order to meet the needs at different levels. Coordinate the development of power machinery with that of related tools, main engines,

fittings, and accessories. Upgrade the standard of complete sets of products and further "specialization, modernization, and professionalization." Concerning the relationship between quality and quantity, quality must come first. Emphasize product applicability, reliability, and durability. Concerning enterprise development and transformation, the focus should be on the intensive development of production. Take existing enterprises as our base. Intensify the technical transformation of large- and medium-sized key enterprises.

(B) Formulate a feasible practical development plan

It is extremely critical that we draw up a development plan for the farm machinery industry based on the needs of agricultural development. Such a plan should include long- and mid-term as well as short-term planning. Three ministries and one center have put forward an outline plan on agricultural mechanization and the development of the farm machinery industry during the Eighth 5-Year Plan. You are invited to discuss it and offer suggestions for amendment. Please also take a moment to consider its long- and medium-term development. Here I would like to offer some ideas concerning the objectives and emphases of the development of the farm machinery industry during the Eighth 5-Year Plan.

1. Projected Completion of the Seventh 5-Year Plan

The Seventh 5-Year Plan is about to enter its last year. During the previous 4 years, we achieved sustained growth in both production and sales and fulfilled the projected goal of a gross output value of 17 billion yuan 2 years ahead of schedule. Gross output value by the year 1990 is estimated to be 21 billion yuan. Currently we have reached or exceeded the plan's projected output in 80 percent of major farm machinery products and expect to do the same for the remaining products with a few exceptions. But there is a good deal of unevenness between different sectors of the industry. The development of machine-driven farm tools has become particularly slow and there has actually been a drop in the number of power-driven seeders. Owing to a variety of reasons, the development of new products, the assimilation of imported technology, and the upgrading of the technical standards of corresponding products have all failed to meet the demands of the Seventh 5-Year Plan. Profitability has not kept up with output growth. While output value for 1988 exceeded the projection by 20 percent, profitability was only 72 percent of the projection. Moreover, profitability is not expected to improve much by 1990.

2. Development Objectives for the Eighth 5-Year Plan

The gross output value of the farm machinery industry is tentatively estimated at 28 billion yuan by 1995. Assuming a gross output value of 21 billion yuan in 1990, this will mean an average annual growth rate of 6 percent, considerably lower than the 10.4 percent achieved during the Seventh 5-Year Plan. We are aiming for this growth rate because of several considerations. First, the central government has demanded that brakes

be put on the overheated economy. It is true that given the nation's industrial policy, the farm machinery industry should expand in tandem with the quickening pace of agricultural development, but since the various sectors of the national economy are an integrated entity, we should fully prepare for any possible difficulties. The thrust of growth in the farm machinery industry during the Eighth 5-Year Plan is not an increase in output volume or value, but the development of product varieties badly needed by agriculture and the improvement of product quality, standards, and enterprise profitability. Second, we have considered the relationship between growth rate and material base and taken into full account the actual material conditions. The shortage of energy, raw materials, and transport capacity will not be eased in the foreseeable future. Fast growth in the farm machinery industry unsupported by a material base will come to nought. Third, of the increase in the industry's output value in recent years, a large part is accounted for by an increase in the output of small tractors and diesel engines. At present these two products are being turned out in numbers sufficient to meet demand. The emphasis in the days ahead will be on the upgrading of product quality and the development of related farm tools. Fourth, we must abide by the principle of stable growth and avoid excessive fluctuations. Of course, a decline in the overall growth rate does not mean a slow-down in the development of all product varieties. Instead, some products should develop faster than others in accordance with the industrial policy.

3. Development Focuses Under the Eighth 5-Year Plan

The farm machinery industry serves a wide area and produces a full range of needed products. But since funds and capabilities are limited, we must set developmental priorities and ensure that such priorities are accomplished whether they be in capital construction, technological transformation, scientific research, or production. Priorities should be set in light of the announced national industrial policy and the priorities of agriculture and farm mechanization. All machinery required by farm mechanization programs decided upon by the agricultural agencies must be made available. Priorities in product development during the Eighth 5-Year Plan are badly needed products which fill a gap in our product lineup, products that are in short supply on the market, energy-saving products or products that utilize renewable energy resources, products destined for the overseas market, import substitutes, and technologically advanced products. Examples include complete sets of equipment urgently needed by the mechanization of the cultivation of the three major crops—wheat, rice, and corn, and livestock and poultry feed machinery necessary in "basket engineering." We must tackle the weak links and make vigorous efforts to develop basic accessories and fittings that influence product standards. Breakthroughs must be made in a number of key manufacturing technologies and processes in order to improve product quality.

(C) Take strong measures: Whether our measures are strong and whether they are really implemented are pivotal to the achievement of our goals.

1. Continue to fulfill the spirit of "rectifying the economic environment and restoring economic order."

Enforce macroeconomic regulatory and control measures. How can we succeed in both macroeconomic management and microeconomic deregulation and revitalization? We still lack this kind of experience, but we must make a start. On the one hand, we must intensify legal construction by formulating pertinent rules and regulations so that comprehensive planning, comprehensive balance, and macroeconomic regulation and control have rules to follow. On the other hand, we must carry out effective supervision to make rules and regulations truly binding. Some preliminary thoughts on strengthening macroeconomic regulation and control. First, make industry regulations authoritative. Given the present multi-level finance contract system, we must proceed in accordance with this principle: "There should be one policy for the whole industry. Planning for the industry should be comprehensive. Sources of funding should be diversified. Examination-and-approval standards should be drawn up for screening at different levels." Second, step up macroeconomic management of fixed assets investment. Not only must we tighten the examination and approval of capital construction and technical transformation projects above the limit, but we must also coordinate investment projects within the limit through planning in order to avoid haphazard development. Third, new products must be controlled. Where series template have been made, production must proceed accordingly. Key products must be distributed reasonably and be made at fixed points. Fourth, imports must be centrally examined and approved. As for exports, we must present a united front. Right now we must perfect the production license system and work out macro management methods for "hot products," starting with those with the most problems.

2. Rely on scientific and technical progress to develop the farm machinery industry in an intensive way.

Like the machine-building industry as a whole, the present farm machinery industry has four characteristics: enterprises abound, but their mix does not make sense; equipment is plentiful but obsolete; the corps of workers is immense, but of a poor caliber; productive capacity is considerable, but the product development capability is meager. Thus in the future we must concentrate on improving the quality of elements of production, tap potential, and switch to intensive operations. First, enterprise investment during the Eighth 5-Year Plan should stress the upgrading of technology, the improvement of testing methods, the enhancement of research and development capabilities, and the training of qualified personnel. Second, further the reform of the scientific research system, speed up the conversion of research

achievements into productive forces, and make the most of science and technology as a trailblazer. Third, strengthen the R & D system. Augment and improve scientific research and technical development methods. Establish a product development center that reaches international standards of the 1980's. Fourth, import advanced technology and transform it into productive forces without delay. Expedite product turnover. Upgrade the standard of the farm machinery industry.

3. Further enterprise reform, strengthen management, and improve profitability.

Fundamentally speaking, the development of the farm machinery industry relies on internal enterprise dynamics. We must unleash the initiative of enterprises and their workers. The contract responsibility system must be stabilized and improved, promoting its strengths and eliminating its weaknesses, to make better use of this form of management suited to the development level of China's productive forces and its enterprise management standard at the present stage. Enterprises practicing the contract system must be guided to reconcile the interests of the three parties—the state, enterprise, and workers—and to reconcile short-term interests with long-term benefits. Contract base figures should be reasonably set, the interest distribution structure should be adjusted, distribution relations should be straightened out, and the political core function of party organizations within enterprises should be furthered. Affirm the position of workers as master of the enterprise, at the same time integrating it organically with the director responsibility system. Establish and improve Enterprise self-restraining mechanism to end short-term behavior. As far as the strengthening of management is concerned, the tendency to replace management with "contracting" must be reversed. Initiate the integrated optimization of enterprise management whose goal is to improve overall enterprise efficiency and which involves the optimal configuration of all elements of production so that management and reform proceed in tandem to upgrade the enterprise. As for the improvement of profitability, the product mix of enterprises capable of making a variety of products must be adjusted vigorously to make them more versatile. The problem of slow turnover of working funds created by the contradiction between year-round production and seasonal sales must be eased. Equipment and personnel must be utilized to the utmost. Products amenable to specialization and mass production must be so treated through enterprise integration to profit from economies of scale. Enterprise integration must be pursued actively and steadily to turn enterprise strengths into corporate strengths and gradually form a national team for each sector of the farm machinery industry and turn out internationally competitive "hot products," thus fueling progress industry-wide. Open up the international market energetically. Expand the variety and quantity of farm machinery exports to earn foreign exchange for the nation and increase enterprise profits.

4. Increase inputs and step up the technical transformation of key enterprises and key projects.

When it comes to technical transformation, priority should be given to enterprises that produce famous good-quality products, import advanced technology, and turn out exports or import substitutes. With their advantage in equipment and technology, large and mid-sized key enterprises have a critical role in completing state tasks and revitalizing the farm machinery industry. They should be given special consideration. Key farm tool enterprises should be fostered preferentially. It is hoped that the comprehensive economic agencies concerned would support them.

5. Create a favorable external environment for the enterprises

Apart from tapping the internal potential of enterprises, raising their capacity for self-accumulation and self-development, we must also create a favorable external environment for them so that they are equipped to compete on an equal footing. Out of consideration for the fact that the rationalization of farm machinery products must proceed gradually, we propose a comprehensive approach, with "everybody offering support" in order to mitigate the difficulties now facing the farm machinery enterprises. Five proposals are made to help foster the farm machinery industry: straighten out the prices of farm machinery products gradually; increase their allocation of low-priced materials; reduce the value added tax on farm machinery accessories; exempt farm machinery products from wholesale and retail sales tax; establish a farm machinery development fund and treat farm machinery research institutes as agricultural scientific research institutes, with no cuts in operating funds. It is hoped that the comprehensive agencies concerned would lend their support. We in the Ministry of Machine-Building and Electronics have always targeted farm machinery as an industry for priority development. In the future we will continue to give special consideration to the industry in every way to the best of our ability. We cannot resolve every difficulty in the industry, but I think we can improve the situation.

Fellow comrades, right now China is in a critical period. We must complete the Seventh 5-Year Plan across the board and succeed in rectifying the economic environment and restoring economic order so as to pave the way for the production of 500 kilograms of grain, the quadrupling of the gross value of national output, and the achievement of a moderately comfortable standard of living for the people by the end of the century. The task is daunting. Supporting agriculture is not the responsibility of the agricultural machinery industry alone, but the responsibility of the entire machine-building and electronics industry. Under the leadership of the CPC Central Committee and State Council, we must cooperate closely with other interested sectors and do a good job by making concerted efforts to develop Chinese agriculture.

Reduction of Peasant Burdens 'Necessary'

90OH0109A Chengdu SICHUAN RIBAO in Chinese
5 Oct 89 p 2

[Article by Dan Xifan (0141 1119 0416): "Give Attention to the Important Matter of Reducing Peasants' Burdens"]

[Text] Since Sichuan Province instituted the family output-linked contracting system, the number of the peasants' burdens rose for 2 years, and fell for 2 years, and the weight of these burdens became heavier for 2 years in a "saddle configuration." In 1989, the trend is again toward heavier burdens. Despite the country's extremely difficult financial situation in 1989, the state appropriately increased grain procurement prices, thereby helping increase peasants' income to counteract increased expenditures. However, the extent of increase in grain prices was very low in comparison with the 1989 rise in prices for fine hybrid seeds, small farm machines and implements, chemical fertilizer, agricultural pesticides, and plastic mulch. This means increased farming costs.

An overview shows four main reasons for the increase in peasants' burdens in recent years as follows:

First was an overestimation of peasant endurance, more and more burdens being shifted to the peasants. Take additional education expenses as an example. Policy requires that such expenses not exceed 1 percent of net income, but in quite a few places where increases were piled on at every level down the line, they became double or triple the policy limits, reaching 20 yuan per capita.

Second was the swelling of official organs and an accretion of miscellaneous fees, the peasants' burdens increasing with each passing day. Government organs and personnel at the township (or town) primary level have increased several times over since the 1950's, quite a few of the expenses incurred being borne by the peasants. In recent years, for example, cadres in every township (or town) in Jingyan County added "several high-ranking personnel," the number of personnel increasing from around 20 to 35, and the relatively fixed burden that peasants carried reaching 35 yuan per capita. In addition, there were other non-fixed burdens, some of them amounting to as much as 80 yuan.

Third, managerial and supervisory work has become weak. Policies are not enforced vigorously making it difficult to reduce the burdens. CPC committees and governments at all levels from the central to the local levels have clear-cut regulations about reducing peasants' burdens, and halting arbitrary rural assessments and the levying of fees; however, differences in understanding and lack of vigorous enforcement have resulted in policies not having been implemented for a long time. This, plus poor management and lack of strict supervision, have further added to peasants' burdens.

Fourth, the rural collective economy is weak. The decline of centralized administration is also an important reason for the heavier peasant burdens. Currently, approximately one-third of the province's villages have no enterprises at all, and in the agricultural cooperatives that do have enterprises, income from collective enterprises is usually only a few tens of yuan per cooperative, an insignificant amount. Today very little remains anywhere of the collective accumulations built up during 20 to 30 years of agricultural cooperativization. When collectives want to provide centralized services or run projects for the public benefit, they must assess the peasants, so how can the peasants' burdens fail to become heavier?

Lightening the peasants' burdens to a realistic point requires diligent implementation of a policy of "taking agriculture as the foundation," doing all possible to safeguard the peasants' enthusiasm. This is the only way to choose a correct course to find remedies. In concrete terms, this means:

Correctly estimating the limits of peasant endurance. After 10 years of reforms, food and clothing problems have been solved in an overwhelming majority of rural villages; however, the number of genuinely well-off peasants is not many, and the amount of their wealth is not high. In 1988, rural per capita net income was 448.85 yuan in Sichuan Province, approximately 3.5 times as much as 10 years previously, but households having per capita net earnings of 1,000 yuan or more numbered only 2.5 percent. Clearly, there are limits to what the peasants can bear now. This requires a straightening out of the guiding thought for rural work, according the lightening of the peasants' burdens the same high degree of understanding accorded to serving the people with one heart and one mind, consolidating the alliance between industry and agriculture, and strengthening the building of honest government.

An accounting should be made, in accordance with pertinent policy provisions, of all items for which fees are collected by way of holding peasant's burdens at a sensible level. At the same time, the peasants should be indoctrinated in love for the country, love for the collective, doing their duty to the utmost, and making a contribution so that they will willingly and actively fulfill state tax levies and hand over withholdings to the collective.

Perfecting the two tier administrative system that combines centralization and decentralization for a strengthening of the rural collective economy. The fundamental way to reduce the peasants' burdens lies in the development of agricultural production, gradually increasing centralized management to increase collective income while increasing peasant income. Xinjin County did a very good job of its village and commune economy. During 1988, villages and communes throughout the county spent more than 1.2 million yuan to lighten the peasants' burdens. Collective funds used to improve production conditions, and to serve the peasants directly

amounted to more than 1.23 million yuan. This powerfully strengthened the agricultural foundation, and cemented relations between cadres and the masses. The two tier administrative system combining centralization and decentralization also improved steadily.

Building and perfecting a "fixed limit quota" system, incorporating the lightening of the peasants' burdens into law. Some places that have instituted "fixed limit quotas" to lighten the peasants' burdens have seen marked results. These experiences should be spread elsewhere.

Improvement of apportionment methods, and enhancement of contract management. Most prefectures in the province apportion peasant burdens on the basis of the number of mu of land that a peasant family farms, a portion of burden for each portion of cultivated land contracted. This method has played a positive role in the past. However, the whole burden falls on the farming industry, particularly grain production, which does not help reduce the burden on peasants who till the land. Apportionment of the burden on the basis of the number of mu farmed should be changed to either the number of mu farmed or the amount of income. Thus, two different methods might be used in a single village or commune, but only one of the methods would be used for a single household. Consideration might be given to instituting this method for several years without change. Readjustment of the peasants' burdens should be done together with the building of the land system, and perfection of the two tier administrative system, all of them lumped together in the contract system in order to help improve management and supervision, and to conduct centralized research, planning, inspections, and implementation.

Institution of management by objective with level by level responsibility. Reduction of peasants' burdens involves many departments and much work. In addition to plugging the aforementioned failure to abide by policies, the key lies in CPC Central Committees and governments below the county level, including districts, townships, villages, and communes listening to the peasants' views, and reporting the peasants' demands. A good job of better staffing and simplified administration should be done in combination with rural cadre management by objective, breaking down level by level responsibilities for lightening the peasants' burden and placing them on cadres, linking this task to production and economic development norms and peasant income increase norms for centralized fulfillment.

Drive To Farm More Scientifically

90OH0132A Chengdu SICHUAN RIBAO in Chinese
10 Oct 89 p 1

[Article by Qing Yuanshu (7230 6678 2873): "Bumper Agricultural Harvest in Prospect for 1989; Science and

Technology Performs Valorous Deeds. A Technical Contracting Craze to Make Agriculture Prosper Through Science and Technology Spreads Throughout the Province"]

[Text] The agricultural science and technology craze that swept through Sichuan Province early in 1989 has brought new promise of a bumper harvest in agriculture. Ever since spring and summer, more than 80,000 Party and government cadres, as well as science and technology personnel have been leaving their official organizations to go into the fields to engage in agricultural technology contracting. They have contracted more than 20 million mu of open field spring sown crops, and have technically transformed more than 1.68 million mu of medium and low yield fields, 5.71 million mu of fruit and vegetable land, and 1,684 township and town enterprises (or projects), performing valorous deeds for agricultural production. A technology contracting craze of using "science and technology to make agriculture prosper" is spreading throughout the province.

Agricultural science and technology given a strategic position for priority development. The provincial CPC Committee, the provincial government, and the provincial people's congress have made great strides in strengthening leadership of agricultural science and technology work. Every jurisdiction and every department has increased its investment in agricultural science and technology while strengthening leadership of rural science and technology work. The provincial science commission's 1989 investment in agricultural science and technology reached 7.5 million yuan, 4 million yuan more than in 1988. In order to improve scientific research conditions in province and prefecture level agricultural science research units, provincial agricultural scientific research institutes again increased operating expenses by 200 yuan per capita, and obligated 1 million yuan from special operating expense funds for use in improving research conditions in prefecture institutes of agricultural science.

Technology contracting taking the lead in spreading the results of agricultural science research and advanced techniques over wide areas. Statistics from 98 counties in 21 prefectures, municipalities and autonomous zhou show that more than 83,000 people are taking part in rural technology contracting. This includes more than 14,000 science and technology personnel, or 57.5 percent of the agricultural science and technology personnel in these counties. They signed a total of 3,341 contract agreements, formed 1,961 contracting groups, and spread 1,100 scientific and technical achievements. The widespread development of technology contracting has hastened the application of advanced agricultural techniques, thereby propelling the province's agriculture in an early leap to a new stage. For example, following implementation of a project to spread the growing of hybrid corn to 1 million mu, yields increased 16.8 percent.

Carrying out comprehensive technical development demonstrations in an effort to explore new ways to hasten rural economic development. By way of taking firm grip on comprehensive development of agricultural technology in hilly areas, the provincial science committee let tenders in early 1989, selecting Santai and Jianyang county, and rural areas surrounding the county seat of Suining county as pilot project counties, the provincial science committee annually allotting them 1.5 million yuan as project guidance capital. This was bundled together with more than 1 million yuan that the counties allotted for use in prescribed projects conducted for 3 years. After more than one-half year of effort, preliminary results were apparent. Gross output of grain from the three pilot project counties is estimated to reach 1.799 billion kilograms in 1989, which is 116 million kilograms more than in 1988. Peasant income is expected to increase by 40 yuan per capita.

The organization of science and technology to tackle key technological problems having a major affect on agricultural production scored major advances. During 1989, 25 scientific and technical achievements throughout the province won provincial scientific and technical advance awards.

Strengthening Management To Ensure Upcoming Production

90OH0104A *Beijing JINGJI RIBAO* in Chinese
18 Oct 89 p 1

[Article by Guo Jing (6753 7231): "Strengthen Regulatory Direction To Ensure This Winter's and Next Spring's Production—Newly Define the Spheres of Command-Style Planning, Guidance-Style Planning, and Market Regulation"]

[Text] At present, production is faced with many problems: serious shortages of energy, capital, and raw materials, and enterprises are faced with the new difficulty of weakening market demand and sluggish sales of their products. Targeting on the above problems, which are now having everybody's attention, Ye Qing [0673 7230], vice minister in charge of industry and communications in the State Planning Commission, discussed the present situation and future endeavors in this area.

Ye Qing said, planned fulfillment has essentially been well accomplished during the first 8 months of this year. The country's gross value of industrial output was 10 percent higher than during the corresponding period of last year, and industrial production showed continuous development, while an excessively rapid growth rate has been controlled. Production of marketable products of the light industry and electromechanical products increased, and production of textiles and of some manufactured goods for daily use and small commodities declined. The domestic market was steady, and earnings of foreign exchange from exports increased. There was no disturbance or panic buying. The rising tendency of

commodity prices was gradually allayed, month after month, and foreign trade and exports improved steadily.

However, since the start of the year, industry and communications actually face a serious shortage of capital, raw materials, and energy, and this has the State Council extremely concerned about production. At four different working conferences at the prime minister's office, comprehensive reports on the production situation were heard from the State Planning Commission and from relevant departments, and ways and means were studied to resolve the production problems. In addition, a production leading group was set up at the State Council with Zou Jiahua [6760 1367 5478], counselor of the State Council, as head of the group, which was to hold periodic production work meetings, and which straightened out and dealt with many important production problems. In March, it decided to issue a maximum of additional 3 billion yuan of circulating capital loans to support the production in key and mainstay enterprises. In April, it arranged for and delivered an additional 10 million tons of coal for power production, thereby ensuring power supply by the four large power networks. In May and June, it studied the logistical problems in railway and communication services and in crude oil production. Most recently, it granted two circulating capital loans of 10-billion yuan each to support the production at large- and medium-sized enterprises.

Ye Qing pointed to the following as the main problems in present industrial production and communications:

An unsatisfactory state of economic efficiency. Losses have increased in the coal, oil, and tobacco industries, and profits have declined in the petrochemical, electric power, automotive, and armament industries. The amount of actually realized profits from 100 yuan of sales receipts throughout the country has declined 12.5 percent, compared with last year. Enterprise losses amount to 20.5 percent of budgeted industrial enterprise losses. Factors that have contributed to this extent of unsatisfactory economic efficiency are shortages of capital, weakening of markets, overstocking of products, and rising costs of energy and raw materials, as well as the problem of deficiencies in the internal management of the enterprises. Although the excessively rapid industrial growth rate has been reduced since the start of this year, no significant improvement has been made in the irrational internal structure of industry. In respect of the structural composition of enterprises, the growth rate has been comparatively slow in enterprises owned by the whole people, but still particularly rapid in collective and township industries. In respect of the lines of industry, basic industries are still weak, with insufficient logistics, while general processing industries continue their inflationary growth. Due to energy shortages and lack of raw materials, a considerable number of processing enterprises had to shut down or partly close down, and there has been no coordination of production between them. As to the product mix, some marketable products could not be improved according to the demands of our industrial policy, and some even declined in quality.

Items that should be restricted could not be restricted, and production of some of these restrictions have increased. In addition, communication and transport facilities were inconsistent with the increases in industrial production. The deficiency of railway and coastal shipping capacity became increasingly evident. In ensuring the transportation of such key commodities as coal and grain, railways suspended transportation of other commodities. Because many enterprises did not have an assured source of raw materials and energy, coupled with problems such as capital shortage, insufficient transport capacity, an incorrect business mentality on the part of some enterprises, and the state's failure in its unified distribution of products and in fulfilling its supply contracts.

To resolve these problems in industrial production and communications, Ye Qing said, it is necessary to start out from the present production realities and the demand of our policy of improving the economic environment, rectifying economic order, and deepening the reform. On the premise of reducing total social demand and strictly controlling commodity prices, we must rectify economic order, adjust our industrial structure, and devote our energy to maintaining an appropriate growth rate, increasing effective supplies, and raising economic efficiency.

To achieve satisfactory industrial production and communications this winter and next spring, we must on the one hand emphasize fulfillment of this year's production plan, and on the other hand also firmly take in hand effective preparations for production during the first quarter of next year. We must earnestly organize and coordinate the production and supplies of coal, electric power, oil and transport facilities, and effectively complete the requirements of the storage and supply of coal for winter. To ensure sources of energy and essential raw materials for production during the first quarter and first half year of next year, all necessary meetings for advance supplies and ordering of commodities must be held during the fourth quarter of this year. As to coal, we shall, next year, carry out a policy of fully rationed distribution, classified guidance, control of demand, and intensified circulation. We shall resolutely overcome the chaotic situation at the marketing link.

At present, we must strengthen command planning, rectify order in the circulation sector, resolutely cut down intermediary links which lend money at exorbitant rates, disturb the market, and purposely raise commodity prices. In a combination of planned economy and market regulation, we shall adopt the principle of a more planned nature during the time of adjustments, and redefine the scope of command-style planning, guidance-style planning, and market regulation, appropriately increase the proportion of command-style planning, and as soon as possible decide on an effective application of guidance-style planning, so as to coordinate all activities of the nation like pieces in a chess game, and overcome our difficulties.

Another point is that we must further strengthen the production control system. It is absolutely necessary that a macroregulating and controlling system be instituted in all localities and departments, according to the demands of establishing a new economic operational mechanism, that we continue to perfect and strengthen the production command and regulatory system, that we promptly study ways to resolve the major problems in production, that we use our limited resources for key dispositions and investments, and that we thereby truly ensure a steady and well-coordinated production.

Feed Shortage Slows Sichuan Hog Production

90OH0109B Beijing JINGJI CANKAO in Chinese
27 Oct 89 p 2

[Article by Xiong Xiaoli (3574 1420 4539), Ling Yun (0407 0061), and Wang Yi (3769 3015): "Sichuan Hog Production Flat; No Major Fluctuations Foreseen For Coming Year"]

[Text] Hog production in Sichuan Province, the 12 year national champion, is flat. During the period January through September, 33,385,100 hogs were removed from inventory throughout the province, 1.67 percent fewer than during the same period in 1988. Nevertheless, hog output increased by 1,500 tons, up 0.55 percent. Forecasts call for the removal from inventory of 57 million hogs for the whole year, about the same number as during the all-time high year of 1988.

There are three basic reasons for this year's slowing of the steady increase in Sichuan's hog production for the past 12 years. One is that the livestock feed shortage has not yet abated. Prices remain high and show no signs of falling. For more than a year since September 1988, the market price of corn has been as high as 0.80 yuan per kilogram in most places in Sichuan. year. Despite the rather good 1988 harvest, grain prices did not come back down. Second, the sale price of hogs is low relative to the purchase price of grain, causing a decline in the number of households specializing in raising hogs, and the production of fewer hogs. The number of households specializing in raising hogs has fallen everywhere, and there has been a general reduction in the scale of production. From January through September, the amount of increase in hog raising has been uneven and fluctuations substantial between one area and another, and one quarter and another. Data from the Sichuan Provincial Animal Husbandry Bureau show a first quarter decline in slaughter hogs in eight of 21 cities, prefectures, and autonomous zhou in Sichuan, and a second and third quarter decline in 15 of them. This is an unprecedented situation following 12 years of sustained increase in Sichuan's hog production. Areas in which hog output has fallen are located mostly in flatland areas that are largely dependent on commodity livestock feed, and in major sweet potato producing hill regions. These are Sichuan's principal hog production areas having a very great affect on hog production throughout the province. Third is a rise in prices of biopharmaceuticals, and a large shortfall

in money available for epidemic prevention. The shortfall in money for epidemic prevention has yet to be remedied in one-fourth of the province's counties.

Sichuan Province's hog production was put to a severe test during 1989, and continued flatness in production is foreseen for the coming year. Plans call for maintaining the removal from inventory of 57 million hogs during 1990, and the maintenance without change of hog procurement at 10 million head, 7 million for shipment outside the province, and 3 million finding markets within the province.

Disparity in Hog, Grain Price Ratios

90OH0109C Beijing JINGJI CANKAO in Chinese
30 Oct 89 p 2

[Article by Reporters Wang Ping [3769 1627] and Song Qing [1345 7230]: "Hog and Grain Price Ratio at Odds Makes Stabilization of Pork Prices Difficult—Importance of Straightening Out Price Ratio Between Hogs and Grain Seen From Changes in Anhui Hog Markets"]

[Text] Several times during recent years, a vicious cycle has occurred in Anhui's hog markets of "difficulty selling hogs followed by difficulty buying hogs, followed by renewed difficulty selling hogs," accompanied by cyclical fluctuations in pork retail markets of "a fall in prices followed by a rise in prices, followed by a renewed fall in prices." Many reasons account for this situation, but the most salient one is protracted distortion of hog and grain price ratios.

In the course of a survey of hog and grain price ratios in Anhui Province, the writer found that distortions in hog and grain price ratios existed for a long time until 1985. When the state abolished assigned hog procurement in 1985, the guidance price for live hogs in Anhui Province averaged 1.60 yuan per kilogram, and the price ratio between hogs and grain was 1 to 5.1, a fairly reasonable price ratio. Hog production rallied during this period. Since the market mechanism was not well developed, and as a result of loss of macroeconomic control, during the late stage of removal of pork price restrictions, imbalance between hog and grain price ratios recurred, reaching 1 to 5.68 in 1988 for a new round of difficulties selling hogs. During the first half of 1989, however, the ratio between hog and grain prices was 1 to 3.9, an all-time low, causing difficulty in buying hogs in markets. This slide in hog production raises the danger of a tremendous rise in retail pork prices.

Analysis shows that the ebb and flow in peasant enthusiasm for hog raising, and the abrupt rise and fall in market pork prices are intimately related to the irrational price ratios between grain and hogs. Analysis of past data about hog and grain price ratios in Anhui Province shows that when the price ratio between hogs and grain is as low as 1 to 4, the number of hogs in inventory declines; a market shortage occurs in market pork supplies; retail prices rise; and it becomes difficult to buy hogs in hog markets. When the price ratio is

greater than 1 to 6, the number of hogs in inventory increases; markets become glutted with pork; retail prices fall; and it becomes difficult to sell hogs in hog markets. When the ratio is maintained at around 1 to 5, hog output stabilizes, and market supply and demand are substantially balanced. These market characteristic appear more conspicuous when restrictions are removed from hog prices, the market regulating hog production and marketing for the most part. At the present time, hog production in Anhui Province is at a low ebb. Only through direct observation, comparing vertically (prices compared with previous years) and laterally (prices in comparison with those in neighboring areas and for related products), can the peasants decide whether to expand or contract the scale of production. When price ratios are reasonable or higher than the break even point, peasant enthusiasm for hog raising is high and the market price of pork is low. Conversely, enthusiasm declines, and pork prices rise.

The survey also found unsynchronized and disparate readjustments of hog and grain procurement prices to be an important reason for inequitable price ratios. During the first half of 1989, the procurement price of indica rice was nearly seven times again as high as in 1982. During the same period, the hog procurement price increased only 1.9 fold. Furthermore, most of the time prices were raised when difficulty in buying hogs occurred, and prices were lowered at times of difficulty in selling hogs, the "advance effect" of the price regulation mechanism not being used to advantage. At the same time, the rise in hog raising costs and the decline in returns distorted even more the already skewed price ratios. According to an Anhui survey, the cost of raising a fattened hog was 1.03 times higher in 1988 than in 1985, but paddy production costs rose only 59 percent. In 1989, the rate of return on hog raising was 18.3 percent, but 80.5 percent for paddy. The disparity between hog and grain prices has resulted in a 121.40 yuan loss per 100 kilograms of pork produced, meaning that the hog purchase price should be increased 1.02 yuan per kilogram. Only then would peasants find it as profitable to raise hogs as to grow grain. The disparity between the input-output rates for raising hogs versus growing grain seriously dampens peasant enthusiasm for hog raising, leading to a slide in hog production and unstable market pork prices.

This shows that the key to a stable pork market lies in straightening out pork and grain price ratios, and the simplest way to bring prevailing price ratios into or near balance is to either raise pork prices or lower grain prices. Experience tells us, however, that price adjustments frequently readily occasion repeated hog and grain price rises. In addition, hog price readjustments are very likely to lag in the effect they produce, operation of the laws of value frequently producing an impact on the next round of hog production. It is suggested that the banks method of "maintaining the value of savings" might be borrowed, drawing up equitable parameters for revising price ratios when hog raising costs rise too

much, and when grain purchase prices rise too much, giving hog raising peasants a certain amount of subsidy, price ratios thereby having a certain amount of elasticity.

Hog production today depends primarily on market readjustments. Scattered, independent hog producers have no way to obtain systematic and accurate market information, nor can market organizers keep abreast of the production situation in a timely and complete fashion. Consideration must be given to drawing up "market pork consumption indices" providing peasants with quarterly feedback as a means of regulating hog production. "Hog raising cost indicies" should also be formulated for timely and appropriate readjustment of hog and grain price ratios in order to support peasant enthusiasm for hog raising, and steady development of hog production for steady market pork prices.

Farm Machinery Industry 'Improves' Despite 'Hardships'

OW0112143389 Beijing XINHUA Domestic Service in Chinese 0517 GMT 17 Nov 89

[By reporter Gu Honghong (7357 3163 3163)]

[Text] Beijing, 17 Nov (XINHUA)—The farm machinery industry has managed to overcome hardships and increase its output of readily marketable products after giving top priority to supporting agricultural production. The total output value generated by the farm machinery industry in the first 10 months this year was up by 5.9 percent over the same period last year. The industry manufactured 960,000 small tractors, more than 3,800 combines, and nearly 140,000 pieces of various kinds of power-driven plows, harrows, planters, and equipment for plant protection during this period.

The state has adopted a low price policy toward farm machinery products for a long time now to assist agricultural production. Thus, farm machinery enterprises have seen poor economic results and have had great difficulty in maintaining their production and operation. This year, to add to the problem, the farm machinery industry also encountered severe shortages of funds, raw materials, and electricity. The farm machinery industry tried every possible means in the face of all these hardships to readjust its product mix, mount "double increase, double economy" activities, tap its own potential, and develop readily marketable products. Of the 16 kinds of major farm machinery products, 10 have either met or exceeded their production schedule, and 6 of the 10, including small tractors, have overfulfilled this year's production quotas ahead of time. Compared with the same period last year, the output of power-driven plows, harrows, equipment for plant protection, and combines have increased to various degrees.

The problem of an inadequate supply of farm machinery accessories, which farmers have complained about strongly in the past, was addressed. The farm machinery industry manufactured more than 3.6 billion yuan of

various farm machinery accessories in the first 10 months of this year, an increase of 17 percent over the same period last year.

The export of farm machinery products earned \$52 million in foreign exchange in the first half of this year, up 45 percent over the same period last year.

Farm machinery enterprises now most need the state to assist the farm machinery industry. These enterprises would like the state to give them preferential treatment with regard to the supply of funds and raw materials so that their enthusiasm for producing farm machinery products may be maintained, their economic hardships alleviated, and the industry's development fostered. All of this would allow these enterprises to produce more and better farm machinery products in support of agriculture.

Prospects for Grassland Development

HK3011125789 Beijing RENMIN RIBAO in Chinese
19 Nov 89 p 5

[Article by Staff Reporter Chen Jian (7115 0256): "The Eye-Catching Grassland"]

[Text] The economy of the pastoral region is in the second development boom period since the liberation. At present, the outstanding problem for the animal husbandry is that serious grassland degeneration and insufficient exploitation stand side by side.

[RENMIN RIBAO] I paid a visit to pastoral regions not long ago, and heard contradictory remarks. On the one hand, many people were of the opinion that the grassland seriously degenerated. A number of experts from the Lanzhou Grassland Ecology Institute even said that it is now difficult to find a grassland that has not been sabotaged. On the other, almost all people believed that the grassland has massive development potential, and much can be accomplished in raising the status of animal husbandry in agriculture. How should these contradictory opinions be assessed?

[LIU JIANG—Vice Minister of China's Ministry of Agriculture]: After making an inspection tour of a number of pastoral regions, I share the following opinion: Serious degeneration of the grassland and insufficient exploitation of it coexist. This is an existing contradiction of China's grasslands, and involves the overall understanding of the development of herbage and the animal husbandry on the grassland.

Since 1985, China's animal husbandry on the grassland has entered the second development boom period since the liberation. In Nei Monggol, and Gansu, where I was not long ago, the number of animals increased by 88.8 and 114.5 percent respectively in the period from 1985 to 1988. In Qinghai, per capita income for herdsmen, which had been usually the lowest, reached 600 yuan. As compared with the first development boom period between 1960 and 1965, the second development boom

period bears the following characteristics: 1) The promulgation of the "grassland law" and the convocation of the "conference on work in pastoral regions" has clarified the general guiding policy for the development of the grassland. 2) The carrying out of the double contract system relating to herds and animals [cao xu shuang cheng bao ti zhi 5430 3964 7175 2110 0545 7555 0455] has laid a foundation for allowing flexibility in the microeconomy in the pastoral region. 3) The state has made reasonable readjustments of prices of livestock products and raised the income from animal husbandry. 4) The government has started to build basic facilities for the grassland animal husbandry, and has gone ahead with the experiment on building a modern comprehensive pastoral region, encouraging herdsmen to raise animals in a scientific way. It is against this background that the grassland animal husbandry is thriving.

But the situation does not allow us to be optimistic. China's grassland animal husbandry is still backward at both the technological and managerial levels. At present, the number of livestock nationwide is hardly higher than in 1966, while the number of dead animals is almost the same as the number of animals that are sold as commodities, that is to say, a considerable number of animals are raised in vain. Despite its vast expanse of land, the meat that the pastoral regions can provide a year is only one-fifth of that provided by Sichuan, and one-twentieth of the total amount nationwide. It can be said that the potential of the grassland pastoral regions is far from being adequately tapped.

China's grasslands are truly overgrazed. At present, the stock-carrying capacity of the grassland is over twice that in the 1950's, while the grass forage output has dropped by 30 to 50 percent as a whole. More than one-third of the grasslands have changed into sandy lands, degenerated, or been infested with rats. As nobody has taken good care of the grassland, which in fact has been managed in a predatory way for a long time, the stock-carrying capacity for China's vast grasslands is 5 sheep per mu, while the rate is 33 in the United States and 77 in New Zealand.

Therefore, if we persist in the traditional predatory management, the situation in which grasslands are overgrazed will deteriorate further and the prospects are worrying. But China's grasslands are clearly underdeveloped as compared with advanced countries that develop their animal husbandry by drawing upon scientific management, science, and technology. The most important thing to do is to replace the traditional way of grazing animals with intensive and constructive animal farming.

If we choose to rely on man's constructive efforts for success in animal farming instead of leaving it to the mercy of heaven, that is, to degeneration, we must enlist the help of science and technology. Taking natural conditions into account, one-third of China's grasslands should have production capacity as high as that of the United

States' grasslands, and most grasslands should have the same production capacity as that of Australia's grasslands.

[RENMIN RIBAO] Truly, all pastoral regions were of the opinion that it is necessary to engage in animal husbandry in a constructive way, but how can we embark on the path of benign cycle as soon as possible?

[LIU JIANG] In general, we should rely upon science and technology to achieve this. The national conference on work in pastoral regions held in 1987 made it a rule that pastoral regions should make vigorous efforts to apply techniques to animal husbandry, such as the techniques of protecting and improving meadows (such as fencing out livestock, growing grass by sowing seeds by airplanes, killing rats and insects in a scientific way, and so on); the techniques of propagating improved varieties of forage grass and of building artificial meadows; the silage technique; the techniques of having fodder ammoniated or alkalinized; artificial insemination; the techniques of enabling lambs to grow fat the year they are born, and of enabling cattle and sheep to grow fat by exchanging pastures for them; the techniques of preventing and curing animals' contagious diseases and other diseases caused by internal and external parasites; the efficient and energy-saving shearing technique; the technique of processing dairy products; the technique of getting in and storing forage; the technique of cleansing and testing sheep's wool; the techniques of drawing energy from wind power and the sun; the technique of building advanced livestock sheds, and so on. The productive forces of China's grasslands will make a step further when these new techniques have been spread. For example, the sheep's wool increased by 1.32 million kg nationwide in 1987, with the output value amounting to 362 million yuan, by only spreading the Merino breed of sheep.

At present, the area of artificial and improved pastures across the land only accounts for about 2 percent of the total available grasslands. If we can raise this percentage to about 50 percent, China's grasslands will double their forage grass output. Again, the rate at which forage grass is turned into meat is in the region of 1 to 2 percent in China, while the same in advanced countries has reached 16 percent. The meat output will increase by a big margin by improving the rate, even though the herbage output will remain unchanged. In addition, China has 200 million head of sheep at present, and the rate of sheep delivered to the slaughter-house is 38 percent. If we can raise the rate to 50 percent, which can surely be achieved, we can save fodder by a great amount as well as net an income of 2.6 billion yuan.

In China, the area the grassland covers is three times that under cultivation. For a long time, we have only attached importance to the 1.5 billion mu of land under cultivation, which naturally should be taken good care of, but have been excessively apathy toward grasslands. Currently, the output value of a mu of pasture is estimated at around 1 yuan. According to calculation of some experts,

if we do a good job of applying science and technology to animal husbandry and of comprehensive processing, the value is likely to increase to 10 yuan or even 50 yuan. Accordingly, the output value of the animal farming in the pastoral regions would total 60 to 300 billion yuan rather than present 5 to 6 billion yuan. China's grasslands can safely be considered as an important source providing staying power for its agricultural development. In a number of foreign countries with developed animal husbandry, the output value of animal husbandry makes up about 25 percent of the total output value of agriculture, while the same is only 1.3 percent in China. Therefore, much can be accomplished in developing China's animal farming. Grassland experts believe that if we do a good job in making use of science and technology, the production capacity on one-third of China's grasslands will catch up with that of the United States' grasslands, and that of grasslands in most areas will be on a par with that of Australia's grasslands.

The principal force for boosting the productive forces of the grassland remains to be the local masses, and the government should concentrate its efforts on improving the macroenvironment. The scores of years to come will see a great development of animal husbandry on the grassland.

[RENMIN RIBAO] It seems that you regard the development of pastoral regions as a component part of the national agriculture and national economy, and as a new device for invigorating agriculture and strengthening the staying power of agriculture. What plan do you have in mind for carrying out the concrete work?

[LIU JIANG] My general idea is that the masters for developing the economy in pastoral regions are herdsmen. As a state administrative department in charge of macrocontrol of agriculture, the Ministry of Agriculture should try its best to lay a solid foundations for expanding the economy of the pastoral regions, for promoting application of science and technology to the animal husbandry in particular, and to provide services, including mainly: construction of basic facilities and service systems which take overall interests into consideration, such as the construction of stock seed bases of herbage, and of breeding stock bases; the construction of technical systems for improving grasslands and livestock; the construction of veterinary and epidemic prevention systems; the construction of bases in charge of eliminating insects and rats, and of preventing fires and disasters; the reconstruction of degenerated grasslands or those which have been turned into sand lands, which is part of the work of improving the national land; and the construction of mechanical bases and chemical bases, and of sources of raw materials, which provide services for the development of animal husbandry. With the introduction of the double contracted management responsibility system relating to forage grass and livestock, and gradual deregulation of prices of animal products, a solid foundation has been laid down in

pastoral regions for allowing flexibility in the microcosmic economy. Given the continued favorable situation and macrocosmic support from the government, the economy of pastoral regions will surely hold out a fairly bright prospect.

I should like to add: Another reason for my optimism toward the prospect of the grassland is: the per capita intake of animal protein per day in China is about 7 to 8 grams, only one-third of the world's average level. It is not easy to increase China's annual per capita grain ration to 400 jin, and it will be very difficult to increase grain production further.

Then how can we boost meat production? To achieve this, we should mainly advance the progress of science and technology, rationalize the structure of poultry and livestock, and raise more animals that consume less grain and feed on grass. That is to say, to raise a great number of plant-eating animals is not only necessary for the pastoral region, but is also called for by China's actual conditions. In the decades to come will see great development of plant-eating animal husbandry in China. Let us all work hard to attain this goal.

Yunnan Raises Salt Price

HK2811045189 Kunming Yunnan Provincial Service in Mandarin 1100 GMT 25 Nov 89

[Excerpt] To attack difficulties in salt production and marketing, with approval of the State Council, our province is to raise the retail price of salt on 25 November.

The departments concerned of our province have taken appropriate measures. The low price of salt is the main reason for the difficulties in salt production, transportation and marketing and even the difficulty in buying salt in some areas. Now it is time to solve the problem. The appropriate raising of the salt price this time is just to help production of salt develop soundly while preserving its status quo, and to remove difficulties from salt transportation and marketing, improve the supply of salt, and crack down on the activities of profiteering through the resale of salt. From a long-term point of view, the move is in the interest of the people. According to the provincial departments concerned, the retail price of salt in bulk will, generally, increase by 0.135 yuan per 500 grams. [passage omitted]

Jiangxi Makes Progress in Exploiting Red Soil

OW2611203289 Beijing XINHUA in English
1502 GMT 26 Nov 89

[Text] Nanchang, November 26 (XINHUA)—A World Bank-aided project to exploit red soil in east China's Jiangxi Province will be completed by the end of next year, one and a half years ahead of schedule, according to a provincial official.

This project was started in early 1980s with a total investment of 246 million yuan (about \$66.4 million) including World Bank loans of \$30 million. It will exploit 20,000 hectares of red soil in central-eastern Jiangxi and was scheduled to be completed by June 1992.

According to statistics, red soil in Jiangxi covers 10.8 million hectares or 64.7 percent of its total area.

Prior to the current project, the province had set up a group of experimental bases and specialized organizations to exploit red soil and about 200,000 hectares had been reclaimed since 1949.

In exploiting red earth, a number of family farms have been set up. Each family farm opened up two hectares of red soil on the hills, on which they planted trees and raised animals.

From September 1986 to June 1989, 7,850 family farms of this kind have been set up in the province, cultivating 16,700 hectares of red earth.

Among the total area, about 5,200 hectares were planted with fruit trees. 3,393 hectares of ramie and low-yielding tea plantations were improved and 2,433.3 hectares of shelter-forest and 1,980 hectares of forage crops were planted.

Other basic facilities have also been built for the exploitation of red earth.

By now, the province has set up 48 electric pumping stations and three reservoirs, and built 210 kilometers of ditches and 250 kilometers of highways.

Jiangxi's farmers have benefited a lot from the exploitation of red earth on the hills.

Investigations show that during the period of 1986-1988, the household farms sold 161,200 head of live pigs, 18.5 million kilograms of watermelon, 1.69 million kilograms of peanuts, 125,000 kilograms of soybeans and 220,000 kilograms of rapeseeds, earning 21.2 million yuan (5.4 million U.S. dollars) in net income. The annual per capita income reached 517 yuan (about 139 U.S. dollars), 16-20 percent higher than that of other farmers.

ZHONGGUO JIZHE Discusses Media Guidance

OW2710060089 Beijing ZHONGGUO JIZHE [THE CHINESE JOURNALIST] in Chinese
No 33, 15 Sep 89 pp 16-17

[Article by Xu Guangchun (1776 0342 2504): What Is Wrong With News Media Guidance for the Public?]

[Text] During the nearly 2 months of student unrest, turmoil, and rebellion, some news media in Beijing deviated from the stand of the party and the people, provided wrong guidance for people, and aggravated the student unrest, turmoil, and rebellion. The lesson is extremely profound.

Hence, what is wrong with news media guidance for the public?

1. At that time, the central authorities lacked correct and powerful leadership and provided seriously wrong work guidance.

After taking the office of general secretary, Comrade Zhao Ziyang paid no attention to party work, even belittled the party's role in actual work, and caused the party to lose its influence and rallying power among the masses. At the same time, he also belittled the role of the party's news media. He showed no concern about the party's news media work, and paid no attention to giving play to the mouthpiece role of the news media in publicizing and implementing the party's line, principles, and policies; its bridging role in keeping in touch with and uniting the people; and its role in providing correct guidance in the course of reform and opening to the outside world.

For a period, the bourgeois liberalist trend was rampant in press circles. Zhao Ziyang, as the general secretary, not only ignored but also tolerated and shielded those who clung stubbornly to a bourgeois liberalist stand and advocated bourgeois liberalization in the press. He also ignored the fact that some news media were in the hands of people with serious bourgeois liberalist thinking. In as early as 1986, when SHIJIE JINGJI DAOBAO took the opportunity of introducing Western economic theories to publicize bourgeois liberalist thinking and drew criticism from both inside and outside the party, Zhao Ziyang immediately defended the journal and issued an instruction (to the effect) that the criticism of bourgeois liberalization should not touch on economic theories. In April this year, when the Shanghai municipal party committee solemnly took disciplinary action against the journal for its gross violation of the party's propaganda discipline in publishing an article by someone stubbornly holding a bourgeois liberalist stand, Zhao Ziyang, on the contrary, criticized the municipal party committee for messing things up and becoming passive.

When some news media changed their political stand after the escalation of the turmoil, Zhao Ziyang incited the press on 6 May: "You have become more open and reported the demonstration. To increase the openness of

news reports is not too risky." Under the guidance of such erroneous thinking, some news media in Beijing showed a wrong orientation and greatly intensified the turmoil and rebellion. It was just as Comrade Li Peng has pointed out, "During the recent turmoil, some comrades in our party Central Committee did not completely take the same stand as the party and the state to give play to the role of the news media, and on the contrary provided wrong guidance, causing some news media to go astray for a short while. The people resent this fact."

2. The long rampancy of the bourgeois liberalist trend in press circles caused ideological pollution.

The attitude of tolerance and connivance toward bourgeois liberalization assumed by some leaders in the party aggravated the rampancy of the bourgeois liberalist trend in press circles, greatly corrupted journalists, and confused people's thinking. This was the direct political and ideological reason for the news media to support the turmoil and rebellion.

The rampancy of the bourgeois liberalist trend in press circles was shown mainly as follows:

—The news media advocated bourgeois "freedom of the press" and stood for independence of journalism. For a very long time, some bourgeois liberalists praised Western freedom of the press and advocated the implementation of such a "freedom of the press" in China in their lectures at schools and in articles published in newspapers and journals. They talked such nonsense as "without freedom of the press, there will be no tranquillity in the country" and "without freedom of the press, there will be no political democracy." Then, what was their true intention? A representative of bourgeois liberalism published his view and said in a newspaper that the news media should become the fourth political force. His word revealed their true intention—that is, they wanted to turn press circles into "a king without a crown" above the party and the people.

—The news media advocated "popularism" and negated the principle of party character. Some so-called press authorities rattled on about "popularism" of journalism. They separated party character from popularism and set the two against each other. They used "popularism" to oppose party character, negate the class nature of journalism, and abolish the party's journalists' sacred mission of publicizing the party's line, principles and policies. For instance, an article said, "Since the founding of the news media of the People's Republic, whether journalists—particularly those who are party members and cadres—can unconditionally work in accordance with the party's principles and policies of a certain period or not has been a basic requirement for their continued stay on journalistic posts. The party's principles and policies of that period will decide when and to what extent journalists can serve as the people's spokesmen."

—The news media advocated pluralism of newspapers and journals to create the public sympathy for political pluralism. The key to achieving political pluralism is the implementation of a multiparty system, and this was something for which the representatives of bourgeois liberalization repeatedly clamored. In response to the clamor, some people in press circles enthusiastically advocated pluralism of the press. Someone said: "A monopolized press will not echo various voices. For this reason, supervision by the media requires a plural mass media to truly express the opinion of the public."

—The news media advocated neutrality in order to obscure the class nature of journalism. If journalism is invariably called mass media, then who are the masses? If the masses mean all the people, can a newspaper or a radio be used by all the people? The answer is no. It is unimaginable that "Voice of America" will seriously play "Internationale" or broadcast the truth about the Chinese People's Liberation Army's successful quelling of the counterrevolutionary rebellion.

—The news media negated the basic nature, basic principles, and fine traditions of the party's journalism. Some people even used bourgeois journalistic viewpoints to criticize the party's journalism. A newspaper article reads, "Ben Bagdikian, an American journalist, said, 'The mistakes of the power holders have created a destitution of knowledge and inestimable misery of mankind. However, they make mistakes not because they are unwise or vicious. They keep making mistakes because the information that they faithfully abide by has not been influentially challenged by open and competitive viewpoints.' Ben Bagdikian's remarks may be regarded as a footnote on the misery caused by the unified press opinion in China. At the same time, those people completely negate the character, principles, and traditions of our party's journalism. Some of them said, "With journalism gradually becoming party propaganda, journalistic organs becoming party organs, and journalism becoming the party's internal affairs, the news media has become the party's mouthpiece and megaphone."

3. Some of the leading positions of the news media were not firmly controlled in the hands of people loyal to the party.

For a long time, some of the news media went all-out to promote bourgeois liberalization and provide a forum and battleground for people who stubbornly upheld bourgeois liberalization ideology. This was because the leaders of these news media themselves had a strong bourgeois liberalization ideology. Some of the news media were passive about promoting Marxism, Mao Zedong Thought, socialism, communist leadership, and the people's democratic dictatorship because the leaders themselves disliked the four cardinal principles and emotionally could not accept those principles. Still, some news media supported turmoil and rebellion because the

leaders themselves supported turmoil and rebellion in their thoughts, behavior, and positions.

4. Some young journalists were ideologically and politically below standard because of the lack of correct education and rigorous training.

As the journalist ranks underwent a process of replacement of the old by the new, a large number of recently graduated young people took up positions in the news media. These young people were full of vigor and drive and were receptive to ideas. However, they suffered from an inherent lack of education and rigorous on-the-job training. As a result, some of them were ideologically and politically below standard. Their inferior standards were reflected mainly in the following:

Difference in interests: They showed strong interest in a Western bourgeois journalistic point of view and practiced with little interest the Marxist journalist point of view and the party's journalistic practice and tradition.

Difference in influence: They were strongly influenced by the idea that "the journalist is a king without a crown." This influence was reflected not only in their journalistic point of view but also in their ideology and work style. On the other hand, they had inadequate understanding of the nature, tasks, mission, and responsibility of the party's journalistic cause.

Difference in value: They valued fame and profit. In recent years, under the strong influence of the "money worship" mentality, some people became the slaves of money and fell on their knees before it. At the same time, they did not take discipline and the idea of serving the people seriously.

Difference in effort: They made great efforts to improve vocational training and yet did not pay enough attention to political-ideological education, believing that learning basic Marxist theory and upholding a correct ideological-political orientation are expressions of "leftism."

Because of all this, some young journalists were unable to distinguish between right and wrong on major issues and could not stand firm in political storms.

We must carry out reform in journalism. However, as journalistic reform is part of the reform of our political structure, we must have a correct orientation, a clear policy, and a sound plan before we undertake reform. Journalistic reform must subordinate itself to political structural reform. Regrettably, in reviewing the course of events in journalistic reform of recent years, we found that although some difficult steps were taken and certain progress was made, we erred in both the guiding ideology and practical work. We abandoned certain principles which should never have been abandoned. We also added certain phenomena which should never have been added. This has made erroneous guidance of the news media inevitable during the turmoil and rebellion.

—Failure to stress principles: The "guidelines" were meaningless. Zhao Ziyang seldom bothered about

journalistic work. Still, he put forward two guidelines for journalistic reform. One was "active" and the other was "cautious." In which aspect should we be "active"? In which aspect should we be "cautious"? Nowhere did he make clear his views. How could such guidelines, which contain no specific principles and clear connotations, correctly guide reform?

—Failure to stress preconditions: There were no restraining conditions to "accessibility and openness." It is necessary to increase accessibility and openness in news reporting. However, there must be a major precondition for them: To uphold the four cardinal principles. In addition, there is also a limitation: The fundamental interest of the party and the state must not be harmed, the image of the country must not be damaged, and national stability and unity must not be undermined. Yet, some leading comrades failed to stress this precondition and limitation when they talked about "accessibility" and "openness." They even said that "everything can be reported, as long as it is fact."

—Failure to stress effects: Certain reform programs weakened the role and function of the party's important media organs. Entrusting the Central Party School to run the theoretical publication of the CPC Central Committee was an example.

—Failure to stress guidance: Meeting the needs of the readers in a passive way was called for, and the guidance role of news reporting was rejected. It was pointed out without regard to principle that news reporting should "go with the tide" and that "action should be guided adroitly according to circumstances."

—Failure to take the country's reality into consideration. New newspapers and periodicals were started indiscriminately, resulting in loss of control of the media. Within a short period of several years, many new newspapers and periodicals were approved for publication. In a country that was culturally backward and

economically underdeveloped and that experienced shortages of qualified personnel, this not only aggravated its financial difficulties, but also resulted in loss of control of the media because of mismanagement, sectarianism, and lack of personnel training.

Beijing Hosts International Esperanto Meeting

*OW1512194189 Beijing XINHUA in English
1515 GMT 15 Dec 89*

[Text] Beijing, December 15 (XINHUA)—China has more than 70 Esperanto associations above the city level, and an Esperanto program broadcast by Radio Beijing enjoys a large audience across the world.

The figure was released at a meeting held here today to mark the 130th birthday of Dr. Zamenhof, the creator of Esperanto.

Created in 1887, Esperanto has spread to over 90 countries and regions and 10 million people have mastered it.

Esperanto was introduced to China 70 years ago. The most important Esperanto organization in China is the All-China Esperanto Association. One of its publications, EL POPOLA CINIO, is distributed to about 80 countries.

Scores of China's universities offer Esperanto courses, and some secondary and primary schools and even kindergartens also teach Esperanto. About 200,000 people are taking Esperanto correspondence courses.

Because of China's achievements in popularizing Esperanto, the International Esperanto Federation, which China joined in 1980, awarded China the Silver Fyne Cup at the 68th Esperanto Conference held in Hungary in 1983.

Today's meeting was co-sponsored by the Chinese People's Association for Friendship With Foreign Countries, Radio Beijing and others. Esperanto fans from the United States, Japan, the Soviet Union, Britain and China attended today's meeting.

EAST REGION

2,853 Economic Criminals Surrender

SK1012115489 Jinan DAZHONG RIBAO in Chinese
13 Nov 89 p 2

[Text] Since promulgation of the "notices" of the Supreme People's Court, the Supreme People's Procuratorate, and the Ministry of Supervision, political and legal departments, supervisory departments, and propaganda departments at all levels in the province have, under the unified leadership of the provincial party committee and government, closely coordinated with one another and have adopted effective measures to extensively and penetratively disseminate and implement the "notices," thus producing remarkable results.

During the 2 and 1/2 months scheduled for implementing the "notices," a total of 2,853 economic criminals and violators of economic regulations and disciplines surrendered themselves and confessed their crimes, frightened of the "notices" and the influence of party policy. Of these, 2,159 persons surrendered themselves to procuratorates at all levels, 309 to procuratorial organs, and 385 to pertinent departments and their own units. These persons surrendered more than 19.96 million yuan of unlawful money and returned more than 13.31 million yuan of illicit money and stolen property to departments concerned. Of these persons, 2,309 are state functionaries—of whom one is of department and bureau level, 31 are of county and section level, 267 are of division level, 253 are plant directors and managers, 1,729 are ordinary cadres, and 840 are party members. Meanwhile, 442 persons had each surrendered 10,000 yuan or more illicit money, with 381 persons surrendering 10,000 to 50,000 yuan of illicit money, 36 persons surrendering 50,000 to 100,000 yuan, 19 persons surrendering 100,000 to 300,000 yuan, and 2 persons surrendering 500,000 yuan.

At the moment, political and legal organs, as well as procuratorial organs at all levels in the province, are dealing with trying and handling the surrender cases, and are trying to give as lenient treatment as possible according to the law. At the same time, these organs are concentrating their energies on recognizing clues for the solution of major economic criminal cases reported by the masses during the period of the "notice." In particular, these organs are concentrating their energies on expeditiously placing those criminals who refused to confess their crimes during the period of the "notice" on file for investigation, and on meting out to them as severe a punishment as possible according to the law.

Jiangxi Holds Anticorruption Conference

OW0712212089 Nanchang JIANGXI RIBAO in Chinese 18 Nov 89 pp 1, 3

[By reporter Yang Min (2799 2404)]

[Text] The provincial party committee and government held a telephone conference on the afternoon of 17

November to report on the progress in Jiangxi in implementing the "notice" of the Supreme People's Court and the Supreme People's Procuratorate and to map out arrangements for deepening the struggle to fight corruption, bribe-taking, and other criminal activities.

The conference opened with a report by Wang Shuheng, chief procurator of the provincial People's Procuratorate, on the implementation of the "notice" by procuratorial organs in Jiangxi. He said that noticeable legal effects and social benefits have been achieved in implementing the "notice" of the Supreme People's Court and the Supreme People's Procuratorate by procuratorial organs throughout the province. A total of 1,412 criminals have surrendered to procuratorial offices, including 72 cadres at the county and departmental levels and 227 cadres at the section and bureau levels. They confessed wrongdoings involving 8.65 million yuan, of which 6.78 million yuan (including illegally obtained goods) were returned to the authorities. A number of criminals under detention and personnel undergoing reform or reeducation through labor voluntarily confessed other crimes they had committed or redeemed themselves by exposing other criminals. Among the criminals under detention in Jiangxi, 151 confessed 241 additional offenses involving 490,000 yuan, exposed 671 other offenders, and provided clues to more than 1,000 cases, including 79 major and serious cases. They helped the authorities recover some 220,000 yuan in illegal money. Showing unprecedented enthusiasm in reporting crime, the masses provided clues to a total of 5,376 cases and helped authorities crack a number of major and serious corruption and bribe-taking cases, thereby enhancing the people's confidence in the determination of the party and the government to fight corruption and promote clean government.

Wang Shuheng said that, judging from the situation in implementing the "notice" in the province as a whole, the overwhelming majority of party and government functionaries perform duties with honesty and serve the people wholeheartedly. This is dictated by the fundamental character of our party and government. However, corruption, bribe-taking, and other decadent practices do exist among a very small number of functionaries in Jiangxi. Such decadent practices, including some very serious ones, have tainted the image of our party and government and seriously endangered the wholesome organism of the party and the government. This deserves our keen attention. We should soberly realize the protracted, arduous, complex nature of the struggle against corruption and bribe-taking, recognizing the struggle from the high plane of safeguarding the socialist system and the people's democratic dictatorship and on the basis of persistently carrying out the struggle as the focus of procuratorial work.

Turning to current work, Wang Shuheng pointed out that it is necessary to organize the cadres and policemen to diligently study the communique and decisions of the 5th Plenary Session of the 13th CPC Central Committee and to unify their thinking on the basis of the guidelines

of the plenary session. It is necessary to summarize the work of implementing the "notice" and to promptly commend units and individuals for performing meritorious service. Efforts should be stepped up to handle criminals who surrender to the authorities within the time limit. In the course of investigating and verifying crimes reported by offenders themselves, it is necessary to scrutinize those who confess to lesser offenses while trying to cover up more serious crimes, and to watch for new clues so as to more effectively carry out the investigation. In handling criminals who have turned themselves in, it is necessary to comply with the legal procedures and strictly abide by the "notice" and "specific measures for implementing Article 2 of the notice." Efforts should be made to promptly crack and severely punish a number of cases in which criminals refuse to surrender and confess to the authorities, so as to gradually deepen the struggle against corruption and bribe-taking.

Jiang Zhuping, deputy secretary of the provincial party committee and vice governor, spoke, saying that the provincial party committee and the provincial government are calling on all localities, after the expiration of the "notice," to further increase their awareness, summarize experience, strengthen leadership, and advance on the crest of victory in deepening the struggle against corruption, bribe-taking, profiteering, and other economic offenses.

How should the struggle be deepened? Comrade Jiang Zhuping set the following three [as published] demands. First, it is necessary, under the guidance of the spirit of the 5th Plenary Session of the 13th CPC Central Committee, to further enhance the understanding of the great significance of the struggle against corruption among the vast number of cadres and people, especially leading comrades at all levels. They should realize that corruption, bribe-taking, profiteering, and other economic crimes have seriously disrupted the economic order, undermined economic stability, and gravely jeopardized the economic rectification, in-depth reform, economic development, and efforts to promote a clean government. It is necessary to firmly crack down on economic crime. They should also realize that the struggle against corruption is a protracted and arduous one and that the expiration of the "notice" should by no means be interpreted as the end of the struggle.

Second, it is necessary to continue to mobilize the masses to expose crime and encourage criminals to surrender to authorities. It should be pointed out that corruption, bribe-taking, profiteering, and other economic crimes, especially corruption and bribe-taking among a small number of state functionaries and profiteering by a few units, have been rather serious in recent years, with some criminals adopting cunning and concealed methods and others continuing to resist the anti-corruption trend. Therefore, we should do in-depth publicity and fully mobilize the masses to take the initiative to report crime so as to foster universal hatred against economic crime. It is necessary to step up the

work in key departments and units. Party committees at higher levels should organize forces to go to units with serious economic problems to provide concrete assistance. It is also necessary to resolutely support and protect cadres and people who have exposed crime, and to severely punish, according to party discipline and state law, those who retaliate against informants. On the other hand, we should continue to publicize the policy on leniency to those who confess and harsh penalty for those who refuse to surrender so as to prompt those who have embezzled, taken bribes, and committed profiteering or other economic crimes to turn themselves in. Although the time limit stipulated in the "notice" has already expired, we will always uphold the party's policy of combining severe with lenient punishment. The door of leniency is always open to criminals who want to surrender. We will handle leniently according to law those who confess and redeem their crimes by exposing crimes committed by others, and harshly punish those who stubbornly refuse to turn themselves in.

Third, it is necessary to step up and conclude investigations of criminal offenders as soon as possible. In view of the heavy tasks of handling those who have surrendered and of verifying crime reported by the masses, all judicial, procuratorial, and public security departments should work actively and concordantly and bring into full play their functions under the unified leadership of local party committees. Procuratorates and courts at all levels should especially further organize all available resources and go all-out to investigate criminals during a given period of time so as to conclude their cases as soon as possible. They should also intervene in the investigation of major and serious cases so as to familiarize themselves with the circumstances of crime and to accelerate the investigation. It is necessary to do things strictly according to the law and mete out lenient and severe punishments as deemed necessary. It is also necessary to select a number of typical cases with harsh punishments, and to continue to hold and publicize meetings on severe and lenient punishments so as to deter crime, educate the masses, and encourage more criminals to surrender to authorities.

Fourth, party committees and governments at all levels should, as always, strengthen unified leadership. Party committees and governments in all localities should earnestly analyze and summarize the progress in implementing the "notice" over the past 2 and 1/2 months. Localities and units that have done a good job should guard against complacency and rashness and strive to score even greater victories, while leaders of localities and units that have done poorly should conduct self-examination, find out where they lag, and work out effective measures for taking a firm and effective grip on the work. It is necessary to organize and coordinate various departments and help them inform each other of progress so as to speedily prosecute criminals and solve existing problems. Party committees and governments at all levels should supervise and examine prosecution of criminal cases, and continue to support the work of

judicial, procuratorial, and public security departments in various aspects, especially to support them in overcoming difficulties and handling cases impartially.

The conference was chaired by Wang Zhaorong, Standing Committee member and head of the leading group of political science and law of the provincial party committee. Li Ying, president of the provincial higher court, also attended the conference.

CENTRAL REGION

Guangdong Commentary Criticizes 'Bad Attitudes' in Rectification

40050007A

[Editorial Report] The Chinese-language Guangzhou daily newspaper NANFANG RIBAO of 18 November carried on page 1 a commentary by the NANFANG RIBAO commentator on Guangdong's response to the decision of the 5th Plenary Session of the 13th CPC Central Committee to rectify the economy.

The commentator observes that while the vast majority of the province's cadres and masses "expressed firm support" for the plenary session's decisions and guiding policy, some comrades exhibit two kinds of bad attitudes that keep them from responding correctly to the action called for by the 5th Plenary Session.

At one extreme, says the commentator, are comrades who do not appreciate the seriousness of the economic crisis, are "unrealistically optimistic," and believe that after biding some time, they can "forge ahead and go all-out" (second set of quotation marks in source). As a result, the commentator observes, these comrades are unwilling to work at putting the economy under control; on the contrary, they spend their time trying to obtain projects and investment.

At the other extreme, says the commentator, are comrades who "insist on exaggerating the seriousness of the crisis" and believe that hope for future economic growth is dim. These comrades are therefore "pessimistic and negative, and don't do anything." The commentator says that these two kinds of attitudes are incorrect and that what is needed is a "scientific attitude" that includes appraising the difficulties, analyzing the causes, and working hard to find policies and methods that will solve the problems.

The commentator urges the reader to bear in mind two facts about the economic crisis. One is that the crisis did not happen overnight; it resulted from years of fundamental problems such as the overcirculation of currency, overspending, and budget deficits. The commentator warns that it will be difficult to solve these collective problems and urges everyone to be resolute about carrying out rectification.

The other fact the commentator seeks to impress upon the reader is that the current problems are temporary, entirely solvable, and completely normal on the road of progress.

The commentator points out that Guangdong has reason to be optimistic about its ability to overcome the current economic crisis because 10 years of reform have given the province many outstanding advantages. These advantages are a strong economy, the material prerequisite to recovery; a population that "wholeheartedly" supports rectification, the psychological prerequisite; a corps of economic experts, the necessary organizational ingredient for rectification; and a rapid return to a stable, united political situation, the political prerequisite. In addition, the commentator points out, the past year's experience with rectification has led to initial success and greater experience, both of which will help in combating current problems. The commentator says that if Guangdong only made use of these advantages, it could confidently and capably overcome the current difficulties.

Guangdong Takes Action Against Underground Societies

HK0512035289 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 25 Nov 89

[Text] For the last few days, public security organs at all levels in our province have taken action to wipe out underground societies and other illegal organizations of this nature. A number of criminals' haunts have been destroyed.

Over the past few years, underground societies in Hong Kong and Macao have stepped up their infiltration of our province. In some cities and towns, a number of underground society criminals' haunts have emerged, which are seriously jeopardizing social stability.

For the last few days, in coordination with the struggle against six vices, Shenzhen, Zhuhai, Shantou, and other coastal cities, as well as some economically developed areas in the Zhujiang Delta, have taken strong measures against such criminal places. Now Shenzhen has arrested a total of 28 members of underground societies and 408 members of other illegal organizations of this nature. Awed by the power of our policies, some 111 members of illegal organizations have surrendered themselves to the public security organs and confessed their crimes. In Foshan City, some 29 underground society criminal haunts have been cracked, and 148 members have been arrested.

NORTHEAST REGION

Criminals Surrender to Heilongjiang Procuratorial Organs

SK2911051589 Harbin HEILONGJIANG RIBAO in Chinese 5 Nov 89 p 1

[Excerpts] The statistics from local procuratorial organ reports compiled by the provincial People's Procuratorate showed that, as of 31 October—the deadline set in

the "notice"—1,166 criminal offenders voluntarily surrendered themselves to the procuratorial organs and frankly confessed their crimes.

Of them, 657 persons voluntarily surrendered themselves to the procuratorial organs and 509 persons frankly confessed their crimes. A total of 346 persons committed crimes involving more than 10,000 yuan worth of illicit money; 35 persons were cadres at the county and section levels; and more than 200 persons were party members. These cases involved illicit money totaling 16.52 million yuan and food coupons totaling 330,000 kilograms of grain. So far, more than 10.54 million yuan of illicit money and food coupons totaling 6,000 kilograms of grain have been recovered. [passage omitted]

Responsible persons of the provincial People's Procuratorate reported that the economic criminal cases that were accepted and heard within the time limit set in the "notice" accounted for only a small number of the clues grasped by the procuratorial organs. By the deadline of the "notice," more than 30 grassroots procuratorates of the province had not had a single criminal who voluntarily confessed his crime. A considerable number of criminal offenders attempted to get by under false pretenses or to remain hidden.

A few days ago, the provincial People's Procuratorate instructed all local procuratorates to concentrate efforts and energy on investigating and handling, according to the preferential policy, the cases of criminal offenders who voluntarily surrendered themselves and confessed their crimes before the deadline; firmly attend to investigating, verifying, and concluding the cases; and strive to conclude all the cases by the end of November. Meanwhile, procuratorial organs should strictly enforce policies and ensure strict punishment of those who refuse to confess their crimes and to handle those who confess their crimes in an appropriately lenient way.

Jilin Announces Legal Personnel Changes

SK0712002589 *Changchun JILIN RIBAO* in Chinese
21 Nov 89 p 1

[Text] Following is the namelist of personnel changes approved at the 12th meeting of the seventh provincial People's Congress Standing Committee on 20 November:

Ma Jianhua [7456 1696 5478] was appointed president of the Baicheng prefectural Intermediate People's Court.

Mu Fengqiao [3664 7685 2884] was appointed deputy chief procurator of the Baicheng prefectural branch of the provincial People's Procuratorate and member of the provincial procuratorial committee.

Sun Jingyun [1327 2529 0061] was dismissed from his post as deputy chief procurator of the Baicheng prefectural Intermediate People's Court and as member of the provincial procuratorial committee.

Ma Jianhua was dismissed from his post of presiding judge of the civil case court under the Beicheng prefectural Intermediate People's Court.

Cui Mengyou [1508 1125 2589] was dismissed from his post of chief procurator of the Baicheng prefectural branch of the provincial People's Procuratorate.

Jin Haidong [6855 3189 2639] was dismissed from his post as procurator of the provincial People's Procuratorate.

Li Sen was dismissed from his post of chief procurator of the Changchun City People's Procuratorate.

Symposium on Press Freedom, Media Guidance Ends

SK2611040789 *Harbin Heilongjiang Provincial Service*
in Mandarin 1000 GMT 23 Nov 89

[Text] The provincial symposium of radio and television departments on freedom of press and media guidance ended in Harbin today. This symposium, which was cosponsored by the provincial Radio and Television Department and the provincial Radio and Television Society received 43 theses from 15 radio and television bureaus and stations and relevant press units throughout the province. During the 3-day discussions, more than 30 leaders of radio and television bureaus and stations and writers of the theses discussed deeply what freedom of the press means, how to persist in correct media guidance in the course of propaganda through radio and television broadcasting, and issues concerning the relations between party spirit and affinity to the people, the relations between the objective nature, the truthfulness of the press, and the purpose of news reporting.

The participants held that under the socialist system, in conducting propaganda through radio and television, we must adopt a clear-cut stand and adhere to the party spirit and principles and a correct political orientation. Only thus can radio and television propaganda persist in correct media guidance and serve as the good reporter and mouthpiece, as well as the link and bridge of the party in maintaining ties to the masses. And only thus can the radio and television propaganda fully manifest and safeguard the common interests of the party, the country, and the people.

At today's symposium, Qi Guiyuan, member of the Standing Committee of the provincial party committee and director of the Propaganda Department, said that our press undertaking is a component of the socialist cause under the leadership of the party. It must be carried out under the party's leadership. Freedom of the press is entrusted to us by the Constitution. The prerequisite for freedom of speech, which is embodied through radio, television, and press, should be the freedom of the press on the premise of upholding the four cardinal principles. We must not stress only what we see and hear at the expense of serving as the mouthpiece of the party

or merely stress information at the expense of propaganda and education. We should consider party spirit and principles as the main melody of propaganda.

Heilongjiang Issues Plan To Improve Public Security

SK2611082089 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 23 Nov 89

[Text] The leading party group under the provincial people's government held its eighth meeting on 23 November, discussing and approving the overall plan of consolidating social peace. To stabilize the province's whole situation in public security and to ensure smooth progress in improving the economic environment, rectifying economic order, and deepening the reform drive, the provincial party committee and the provincial people's government have decided, from 1 December 1989 to the end of 1990, to regard as a major task the work of consolidating or improving the social peace, and to conduct the work as they have done in carrying out the 383 projects. The fighting targets of the province's overall plan for consolidating or improving the social peace are as follows: After carrying out consolidation and improvement in this regard, the political situation in the province as a whole should be stable, the province's public security should be relatively sturdy, the social order should be better than before, and a turn for the better should be registered in social morale. Problems that seriously endanger the people's safety should be better handled. The people should have a stronger sense of safety, and Heilongjiang should become one of the best provinces for social peace in the country.

It is pointed out in the plan that to fulfill the above-mentioned targets, efforts should be made to earnestly implement the principle of integrating the task of dealing strict blows to crimes with that of taking preventive measures, and of regarding preventive measures as the main. We should adopt resolute measures and make all-out efforts to carry out consolidation and improvement in the eight fields of conducting education, dealing blows, taking preventive measures, rectifying order, eliminating social evils, enhancing management, conducting reform, and engaging in mediation.

Conducting education means to extensively and deeply carry out education among the people on the central content of the Constitution on legal systems, ideals, and morality, so as to upgrade the quality of all people.

Dealing blows means to deal strict blows at serious crimes or severe economic crimes.

Taking preventive measures means to bring into play the contributing factors of various social circles so as to enforce the system of relying on the masses to prevent crimes and to improve the social peace.

Rectifying order means to consolidate public security and social order and to do a good job in carrying out consolidation in the following six areas:

1. Efforts should be made to consolidate cultural and recreational facilities, including cinemas and theaters, dance halls, tearooms with videotape shows, and music and tea houses.

2. Efforts should be made to consolidate the markets of light industrial commodities and farm products.

3. Efforts should be made to consolidate order in railway and bus stations.

4. Efforts should be made to consolidate stations or centers that purchase scrap iron and small oil refineries and collieries.

5. Efforts should be made to consolidate hostels or inns.

6. Efforts should be made to consolidate taxicabs, and taxi drivers who have not reported criminal activities committed by their passengers to the public security authorities should be strictly dealt with.

Eliminating social evils means to eliminate pornographic things, to deal blows at evil, to sweep away the six vices, and to get rid of pollution.

Enhancing management means to bring under strict control guns, explosive articles, and traffic order, and to enhance management over the floating and concentrated populations.

Conducting reform means to take elements that have violated the law and misled youths in the reformatories and reform them through education.

Engaging in mediation means to mediate various disputes to prevent the intensification of contradictions.

It is demanded in the plan that various departments and fronts, under the leadership of the party committee and the people's government, assume the tasks of public security in society as a whole by earnestly implementing the principle of having the personnel in charge of the work be responsible for the work, and of having each perform his duties in line with the division of work, so as to truly create a situation in which all people mutually manage public security and improve social peace. We should organize workers, peasants, urban residents, and various social circles to join this work in a united way. Efforts should be made to take radical and stopgap measures simultaneously and to consolidate public security in a comprehensive manner. We should also build up a strong momentum in this regard so as to frighten criminal elements and inspire the masses. Through the 1-year struggle, we should prompt a turn for the better in the province's public security.

Shao Qihui, secretary of the leading party group under the provincial people's government, presided over the meeting. Attending the meeting as observers were responsible personnel from the provincial Military District, the People's Liberation Army units stationed in the province, the Armed Police Forces, and the provincial-level departments concerned.

Jilin CPC Members Learn From Spirit of 'Dang Yi'
HK0612034189 Beijing RENMIN RIBAO in Chinese
26 Nov 89 p 3

[Report: "800,000 Party Members in Jilin Province Learn From 'Dang Yi'"]

[Text] In the past year, party organizations at various levels in Jilin have been carrying out in depth the activity of learning from the spirit of "Dang Yi" and being qualified communists among the 880,000 party members of the province. This has effectively raised the political quality of party members and prompted them to play an exemplary vanguard role.

An ordinary party member in the Changchun Rolling Stock Plant gave financial assistance to an old worker living in straitened circumstances for a year under the assumed name of "Dang Yi," which means the party's duty. After the story of "Dang Yi" spread, the masses said that the spirit of "Dang Yi" is, in fact, the communist spirit and is the reappearance in the 1980's of the spirit of Lei Feng. In late 1988, the Jilin Provincial CPC Committee decided to carry out the activity of learning from the spirit of "Dang Yi" and being qualified communists among all the party members in the province.

Jilin then widely spread the deeds of "Dang Yi" through mass media and various meetings. In many localities, this activity was integrated with other activities: First, the activity of learning from the spirit of "Dang Yi" was combined with the activity of "creating advanced party branches and striving to be outstanding party members." Party members were encouraged to compete with each other in "following the example of 'Dang Yi,' bringing warmth to the masses." Second, the activity of learning from the spirit of "Dang Yi" was combined with efforts to eliminate corruption and maintain clean government. In Changchun City, 40 members of county, city, and district party committees carried out criticism and self-criticism by comparing their own conduct with that of "Dang Yi" and solved existing problems. Third, the activity of learning from the spirit of "Dang Yi" was combined with commending progressive figures, deeds, and ideas. A number of "Dang Yi"-style examples were set for the entire party membership, and this enriched the activity of learning from "Dang Yi." Fourth, the activity of learning from "Dang Yi" was combined with implementing the spirit of the 4th Plenary Session of the 13th CPC Central Committee so that party members could be conscious of maintaining a high degree of uniformity with the party central leadership, take into account the overall situation and interests, and faithfully perform their duties.

The activity of learning from "Dang Yi" has strengthened the sense of serving the people wholeheartedly among party members. In Fuyu City, more than 10,000 party members reformulated their plan for helping the poor and the weak. They successively helped 1,600 peasant households start new industrial and sideline

production projects. In Liufangzi Town, Gongzhuling City, 480 party members separately helped 204 poor households overcome financial difficulties and purchase fertilizer and seeds. Party members in the whole province have donated a total of 165,000 yuan to help the masses and have done 450,000 good things for the masses. They actually sent the party's warmth to the hearts of the people and effectively enhanced the party's prestige among the people. Party organizations at various levels have received more than 74,000 commendatory letters from the masses.

Party members and leading cadres at various levels have raised their consciousness in working selflessly for the public interest and seeking no private gains through the activity of learning from the spirit of "Dang Yi." By the end of June, party leading cadres at and above the deputy bureau chief level in Changchun City had returned 120 gifts and refused bribes with a total value of 23,000 yuan. Many party and government leading organs have also established and perfected their anticorruption systems. Dongliao County formulated a system requiring party and government leading cadres to report their family property, thus subjecting the cadres to mass supervision.

With the in-depth development of this activity, the good conduct of party members has also brought along the improvement of public conduct. In many localities of Jilin Province, a new social ethos has taken shape.

Jilin Reports Crackdown on Economic Crimes
SK2911052089 Changchun Jilin Provincial Service in
Mandarin 2200 GMT 28 Nov 89

[Text] According to information released on the morning of 28 November by the press spokesman for the provincial People's Procuratorate, after 31 October—the deadline stipulated in the notice of the Supreme People's Court and the Supreme People's Procuratorate—People's Procuratorates at various levels throughout the province adopted resolute measures to deal with economic criminals who refused to give themselves in and confess their crimes within the prescribed time limit. By 25 November they had caught 72 criminals guilty of serious economic offenses.

Starting 1 November, People's Procuratorates at various levels throughout the province took active action against the economic criminals who, leaving things to chance, put up a desperate struggle, refusing to give themselves in and confess their crimes within the time limit prescribed in the notice; who destroyed evidence and transferred illicit money and goods; who colluded with one another for mutual protection; and who absconded to avoid punishment and refused to surrender; thus making it impossible for them to escape the net of justice.

Heilongjiang Reports on Environmental Protection Decisions

SK0312050589 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 2200 30 Nov 89

[Text] The fifth provincial environmental protection work conference ended on 30 November. At the conference, the provincial government issued to the local levels the recently approved decision on strengthening environmental protection work and a circular on the province's environmental protection targets and tasks. The main content of the provincial government's decision on strengthening environmental protection work is that governments at all levels should put forward the responsibilities, targets, and tasks to be carried out during the term of office, should list them in the responsibility system for attainment of certain targets during the government leaders' tenure after approval of the last term of government, and should consider them as one of the important requirements for appraisal of one's official career achievements. Governments at all levels should also include environmental protection work in the economic and social development plans of their own localities. During improvement and rectification, we should implement a policy to restrict the development of enterprises that are irrationally distributed, that consume lots of resources and energy, and that cause serious pollution and should force them to readjust their production. We should impose economic sanctions on or punish with administrative action those enterprises or responsible persons of enterprises who fail to fulfill their environmental improvement tasks on time.

The provincial government called for efforts to control the province's annual amount of discharge of industrially polluted water within 1.5 billion tons by 1992. The rate of meeting standards for discharging polluted water should be 10 percent higher than the present rate. The drinking water quality of the whole province should meet state standards. The annual discharge of sulphur dioxide should be controlled within 380,000 tons, the discharge of dust should be controlled at last year's level. The comprehensive utilization rate of solid industrial residues and waste gas should be raised by 3.5 percent. At the same time, 20 nature reserves will be built.

Meeting on Institutions of Higher Education Ends

SK2611043089 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 23 Nov 89

[Text] The Heilongjiang provincial meeting of party committee secretaries of institutions of higher learning ended today. The participants conscientiously discussed the party work of the institutions of higher learning during the past 3 months, the current situation of the institutions of higher learning and the next step of party work, and pointed out: The next step of work of the institutions of higher learning in our province is to continuously study and implement the guidelines of the 4th and 5th Plenary Sessions, Jiang Zemin's important speech given at the 40th anniversary of National Day,

and special topics on educational work; step up our efforts to investigate and clear up the work during the self-examination and self-inspection stage, and to investigate and verify the key persons; and make good preparations for the final handling with organizational measures.

Addressing the meeting, Vice Governor Huang Feng said that this year, under the leadership of the provincial party committee and with the concerted efforts of the party and government leaders and the broad masses of political work cadres of various institutions, institutions of higher learning in our province have done a good job in their party work, as well as in their ideological and political work, resolutely implemented a series of policies and plans of the party Central Committee, the State Council, and the provincial party committee, experienced an unusual and severe test and did a lot of hard and effective work. The provincial party committee and the provincial government were pleased with this and fully affirmed their achievements. After the provincial conference on the work of the institutions of higher learning, the institutions of higher learning in our province mainly grasped two major tasks: First, they continued to stabilize the situation in higher educational institutions; second, they earnestly attended to the investigation and screening work.

Huang Feng said that all institutions concentrated their efforts on education, educated students with special topics, paid attention to investigation and cleanup work, universally strengthened management, and strictly observed school spirit and rules. After the opening of the new school term, their teaching and order were generally better than in previous years. However, we should also fully recognize the influence of rampant bourgeois liberalization over the past few years, which resulted in ideological confusion in institutions of higher learning, and by the slackening of efforts in the party's leadership and the ideological and political work for a period of time, and particularly some new ideological problems of students and teachers caused by student unrest and the turmoil. This requires our effort to do a lot of meticulous ideological and political work. In the days to come, the ideological and political tasks of institutions of higher learning will be very arduous.

In referring to strengthening ideological and political education among young students, Vice Governor Huang Feng pointed out that the outbreak of student unrest and turmoil in our province showed that there are successes, weaknesses and mistakes in the ideological and political work of the institutions of higher learning in our province, which require that we conscientiously sum up and review past work. Successful experience should be preserved and promoted, weak points should be strengthened, and mistakes should be corrected. This should be the point of departure and the basic pillar for strengthening the future ideological and political work of institutions of higher learning.

While touching on uniting with, relying on, and improving the work of the broad masses of teachers, Huang Feng said that the broad masses of teachers of institutions of higher learning throughout the province, during student unrest and turmoil, worked so diligently that they even forgot to eat and sleep. They played an important role in stabilizing the situation in institutions of higher learning. In the future, they will still be a trustworthy and reliable force for helping us to run the socialist universities well. With regard to a small handful of persons who still participated in parades and giving speeches and who sank deeper into errors after the

quelling of the counterrevolutionary rebellion in Beijing, we should educate them and help raise their understanding, distinguish between right and wrong, change their political stand, and maintain unity with the party and the government.

In his speech, Vice Governor Huang Feng also put forward specific opinions on strengthening the party building of institutions of higher learning in our province and on the province's screening work, consolidation, and deepened reform.

Commentary on Election in Taiwan

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[Article by staff reporter Yao Xiaomin (1202 1420 2404): "The AntiDemocratic Nature of 'Democratic Politics'—Commenting on the Yearend 'General Elections' in Taiwan"]

[Text] In Taiwan, the day for the yearend general election is drawing near, and every candidate is going all-out to make a final sprint. The island is one vast scene of "fierce competition."

The current general election is the first election since the Taiwan authorities lifted martial law and the ban on newspapers and political parties, and is also a general election in which the greatest number of people enter an election contest, and political parties are locked in the most fierce competition of the last 40 years. Some people in Taiwan claimed that the elections would be "fair, impartial, and open," hoping that the Taiwan "democracy boat" would have smooth sailing following the "general election." But, unfortunately, some candidates wantonly preach an independent Taiwan, advocating splitting the country, some resort to violence, while others practice bribery at the election. All these activities before the election and a series of statements and actions found in the course of the election campaign show the election to be a thoroughly "antidemocratic" show.

In Taiwan's current election, more than 700 people are competing for about 300 seats, including additional seats in the Legislative Yuan, county magistrates, mayors, and provincial and urban parliament members. As the seats to be filled are fewer than candidates, some candidates resort to all kinds of "weapons" to attain their goals. Money and violence, among other means, are more common ones. It is reported that, as the competition gathers intensity, scandals are found in various electoral districts. Candidates give voters money, presents, promises, or tips about a good bargain in the stock market. In short, candidates practice bribery of all sorts to get elected. Presents delivered include gold rings, a variety of appliances, flasks, imported wines, ginseng, and so on, while money given in return for a vote ranges from 200 to 3,000 yuan. Heaving a sigh, a Taiwan scholar said, "If one is elected by practicing bribery, we will not help but cry with pain."

It is also reported that some candidates lobby for support from triad societies in their efforts to get elected. As a result, violence is inevitable. Naturally, increasing violence has something to do with the deteriorating social order, the popularity of gambling, utilitarianism, and the popular desire to seize every chance to gain advantage by trickery. In the last month, cases were frequent in which candidates were intimidated and blackmailed, and their election headquarters, sound trucks, and billboards were sabotaged. A candidate for "legislative councillor" in Zhanghua County was shot. Even more shocking was that the police and personnel in charge of environmental

protection were attacked by armed ruffians when they cracked down on propaganda materials that went against regulations. LIEN HO PAO said in an article, "If the situation goes from bad to worse, the red light for 'democracy' in Taiwan will be turned on, and the people will face a new era in which only 'terrible democracy' is available."

It goes without saying that the current general election in Taiwan will provide an opportunity for redistribution of political and economic powers. Of 39 political parties on the island, 19 parties place candidates on the ballot. The Kuomintang, which is composed of different political vested interests, and the Democratic Progressive Party, which is also composed of different political vested interests, are locked in fierce competition, in which are involved various forces such as factions, families, consortiums, mass organizations, churches, and secret societies. To attain their personal goals, the candidates attack each other, writing overt or covert letters, starting rumors, hurling invectives, exposing private secrets, and so on. Taiwan newspapers said, "If these malpractices worsen, the basic function and purpose of democracy will come to nothing, that is, it will be impossible to bring into line different opinions of various political parties, and draw more talented people into state organs."

Another dirty scene in Taiwan's current election is that those who advocate "Taiwan independence" come out into the open, throwing away all disguise.

On the eve of the polling day, when the competition is growing more tense, several Taiwan newspapers openly carried the "Draft Basic Law" for setting up a so-called "Republic of Taiwan." At the same time, the "New Nation Alliance," which was organized by some members from the Democratic Progressive Party who are running for "legislative councillors" and provincial and urban "parliament members," was set up, and the organizers made "setting up a new nation and drawing up a new constitution" their election program. Clearly, the "Draft Basic Law" and the "New Nation Alliance" are aimed at changing the election for public posts into a referendum on the so-called "Basic Law" or even on "Taiwan independence."

"The Draft Basic Law on the Republic of Taiwan" and the "New Nation Alliance" advocate abandoning "illusory consciousness of China" in favor of the plan to set up an "oriental Swiss Taiwan State," an independent Taiwan separated from a unified China. Those who advocate "Taiwan independence," to our surprise, consider their plan to rebel against the motherland and split the country as their political propositions, and claim nobody can infringe upon their freedom of speech. The Taiwan authorities, who are usually opposed to "splitting of the nation's territory," cannot crack down on them without scruple.

Persons from Taiwan legal circles pointed out that advocating setting up the "Republic of Taiwan" and

publishing the draft basic law in the newspapers have constituted a quasi-crime of "splitting the national territory, and can be considered as intentionally inciting others to "betray their country." In fact, not only people on the island do not favor or support "Taiwan independence," but members of the Democratic Progressive Party also take a wait-and-see attitude toward it or query the validity of the proposition. Therefore, the Taiwan authorities should not connive with those who advocate "Taiwan independence" under the pretext of protecting "freedom of speech." "Democracy" does not mean that any argument for splitting the country advanced under the pretext of "freedom of speech" can go unchecked. If the Taiwan authorities are worried that their legal action against advocates of "Taiwan independence" will bring about stronger repercussions from the people concerned and thereby adversely affect their achievements in the election, that means they place the interest of their party above that of the Chinese nation.

Under the pressure of public opinion, a number of senior officials also accused those "advocates of Taiwan independence" of "violating the law," but their deeds that show their keen interest in establishing an independent political entity prove that they are only playing the tricks of "democracy," because their deeds do not square with their words.

At present, the general election in Taiwan is drawing to a close. A Taiwan scholar said in his analysis that the election is a game of the haves. So long as one has a lot of money, he is likely to be elected a "legislative councillor" or "parliament member," and stay in the so-called democratic palace hall for 3 or 4 years. On the contrary, if poor people want to get elected, they have to put themselves under the patronage of consortiums or influential people, carefully cover up their positions and opinions, and readily serve their masters. This comment really hits home.

In fact, candidates have to rely on the following sources of votes to win the election: "Secure votes," that is, votes from those groups or political parties that endorse their political positions; votes from those who have connections with them; votes from those who hold the same political positions; and votes purchased with money. "Secure votes" are mandatory ballots, which clearly set political parties' opinion against public opinion. The connections refer to ties of blood, and ties to persons from the same village, town, or province. These two categories of votes cannot stand for public opinion. It is reported that Taiwan people are apathetic to political opinions, which can be proved by poor attendance of seminars on political positions held by candidates. Therefore, few candidates can carry the election by drawing on votes from those who hold the same political opinion; only those who are supported by votes of the other three categories can emerge victorious. So, a person with a discerning eye can tell what the "democratic election" in Taiwan really is.

XINHUA Views KMT 'Tolerance' Toward 'Taiwan Independence'

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[By reporter Fan Liqing (5400 7787 7230)]

[Text] Beijing, 30 Nov (XINHUA)—A so-called "election for three public offices" will be held in Taiwan on 2 December. Taking "Taiwan independence" as a "political view" during the election campaign, candidates and their campaigners, who rushed back home from abroad, have unscrupulously advocated "Taiwan independence." The Kuomintang [KMT] authorities' "tolerant" attitude toward such election campaigns has made it possible for advocates of "Taiwan independence" to escalate their activities.

It has been over a week since the election campaign was launched for the three public offices in Taiwan, that is, for additional members of the Legislation Yuan, county commissioners and city mayors, and provincial and municipal assembly members. "Taiwan independence" has become a hot topic at meetings for candidates to air political views held in various localities. According to Taiwan newspapers, "a considerable portion of candidates have been involved with the issue of 'Taiwan independence.' Even a few moderate candidates, who have concentrated on policies of public welfare, are compelled to state their attitude on the issue so as not to be left out from the heated discussion. Therefore, there are only two voices—those in favor of and those against 'Taiwan independence'—resonating at campaign meetings."

According to reports, "Taiwan independence" advocates started their action in early November, deliberately trying to escalate the voice for "Taiwan independence," which has become increasingly louder on the island in recent years. On 5 November, Lin Yi-hsiung, a former Taiwan provincial assembly member who had left for the United States 4 years ago, returned to Taiwan and published his so-called "Draft of the Basic Law of the 'Republic of Taiwan'" in TZU LI WAN PAO on Taiwan. The next day, 32 "candidates for the three public offices," with members of the New Trend Faction of the Democratic Progressive Party [DPP] as the mainstream, formed the so-called "Alliance for a New State," declaring "Taiwan's sovereignty and independence" and "mutual recognition between Taiwan and China" as their political view and clamoring to formulate a "new constitution," elect a "new parliament," and establish a "new state." After the election campaign was formally launched on 15 November, the alliance openly dished out the so-called "Draft Constitution of the Republic of Taiwan," brazenly advocating "Taiwan independence" at the meetings for candidates to air political views. Yao Chia-wen, convener of the alliance and former chairman of the DPP, bragged at a meeting on the evening of 14 November that the "founding of an independent Taiwan

state is a matter of time." Exploiting the election, advocates of "Taiwan independence" have put forth four "principles for founding a nation," "aimed at increasing the people's national awareness." In the following 10 days or so, "Taiwan independence" advocates further escalated their clamors on the island. In Hsinchu City, an advocate declared at a so-called "meeting to explain Taiwan's future" that "Taiwanese are not Chinese" and that "Taiwan's future lies in forming an independent state." In Ilan County, Chen Ting-nan, the incumbent county commissioner campaigning for a seat in the Legislative Yuan called for "proclaiming Taiwan a permanent neutral state." There are numerous similar instances.

Advocates of "Taiwan independence" overseas have seized the opportunity to add fuel to the flames of "Taiwan independence" activities on the island. Some organizations for "Taiwan independence" have overtly or covertly sent people back to Taiwan. Kuo Pei-hung, chairman of the Federation for Taiwan Independence, who was originally banned from returning to Taiwan, secretly returned to Taiwan more than a month ago. He even called a news conference on 22 November, declaring that the purpose of his return is to "establish a new state."

In view of the unscrupulous activities for "Taiwan independence," Taiwan authorities have adopted an unprecedented tolerant attitude. They either casually mentioned that "Taiwan independence" is a "personal view without popular support" and "will not be accepted by voters," or declared that "statements aired by candidates and their campaigners should not contravene the relevant laws and regulations, otherwise the candidates and campaigners will be punished by the judicial and security departments according to the law." In the most serious cases, the Taiwan authorities would only said that "a small number of people who try to alter the national name and split the national territory cannot escape punishment by the law." In this way, the Taiwan authorities have said little and done nothing about "Taiwan independence." However, at meetings for KMT-member candidates to air political views, some leading KMT party and government officials not only failed to repudiate "Taiwan independence" advocates, but also exploited this issue to shout stereotyped anti-communist rhetoric, directing the spearhead of attack against the mainland. At present, activities for "Taiwan independence" have further spread as a result of the Taiwan authorities' tolerance, arousing serious concern among patriots at home and abroad. Where are the Taiwan authorities are leading Taiwan?

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